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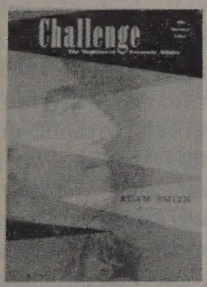

COVER BY WALTER FERRO
INSIDE COVER BY WIDE WORLD

Articles

Human Experience and Opinion 6
HAIG BABIAN

Are We Too Deep in Debt? 11
JULES BACKMAN

Foundations: Society's Risk Capital 16
ARNOLD J. ZURCHER

The Big Thirst 20
FRANK A. TINKER

For Asians—Aid and Counter-aid 24
EGON KASKELINE

The Right Support 33
ENID WOLF

Who Pays the Cost? 42
LEO WOLMAN

Russia's Creeping Capitalism 48
PAUL WOHL

Clearing the Air 53

The Fair Trade Dilemma 58
HERBERT KOSCHETZ

Interview

Martha M. Eliot, M. D. 36
CHIEF OF THE CHILDREN'S BUREAU,
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Departments

A Personal Note 2
Challenge Notes 4
Man and the Economy - No. VII 28
You May Want to Know 46
Economics in Action 57
Challenge Quiz 63
Dept. of Better Mousetraps 64

a personal note

from the editor

how much progress
do we need for perfection?

THE U. S. DEPARTMENT OF COMMERCE makes a running study of the structure of personal incomes in the United States. Those who like to plot such statistics on a graph would probably speak of an "income distribution curve," which fifty years ago looked like an inverted funnel (a few people on top and many at the bottom) and today looks like a bell jar (a few on top, some on the bottom, and just as many in the middle). In plain language, the change in the income distribution curve means two things: (1) more and more people are moving up into the middle-income bracket; and (2) the differential between those at the top and those at the bottom is diminishing.

Thus far, this trend has been one aspect of the general improvement in American economic life. The improvement in all respects has been such that we can say things are going well, without implying that the millenium is at hand. There is always room for improvement. Nevertheless, it is good to feel that our economy is on the right track.

Speaking of track, I am reminded of the man who included trolley cars in his detailed plans for a supposedly "perfect" state. There was such a man. He called his perfect state Icaria, and in 1849 he and his followers actually established a colony for Icarians in Nauvoo, Illinios. The experiment was an abysmal failure, but, without going into details, the point of the story seems to be this: setting up perfection as a measure of progress denies the very existence of progress. By focusing attention on *current* concepts of perfection, unplanned developments which might prove to be favorable are rarely noticed, unexpected difficulties become major catastrophes, and discontent with the pace of progress becomes a national pastime.

It is better to know that we are on the right track than to feel that there is no progress unless one can see the diminishing distance between himself and the last stop at the end of a measured course. The American economy *is* on the right track. The criterion for this conclusion is that more and more people are attaining a higher standard of living with every passing decade.

This brings us to the final digression in this personal note. If the trend of the past fifty years continues, will everyone's income eventually be equalized? And will everyone be able to afford, and to buy, the same goods of the same quality?

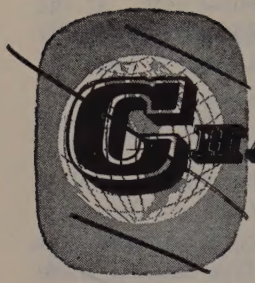
This is a rather drab prospect—certainly for those who believe that a little variety is the spice of life. But there will be no such ultimate conclusion to this particular economic phenomenon—unless we make it an instrument of legislative policy to force an absolutely equal distribution of all income. As long as the rewards are meted out according to the supply-and-demand dictates of a free market, there will always be, properly, income inequality among men of unequal talents and value. The type of income leveling we continue to experience has to do with increasing the purchasing power of large numbers of people who can afford to look for something more than the necessities of life. To say this is quite a mouthful, but, then, we are talking about quite an accomplishment.

As for the prospect that more equality in purchasing power will result in a standardization of demand and elimination of variety in the quality and price of goods, just the opposite has proved to be true. There are houses priced from $2,500 to $50,000, or more; automobiles from $1,300 to $8,000; TV sets from $75 to $800; suits from $35 to $350; and so on. The bell-jar-shaped income distribution curve implies a capacity to buy an amazing range of goods.

What is the reason? There aren't any social barriers which prevent a man from buying anything he wants. If a big car is what he desires, and if he can pay for it, he can buy it—even while continuing to live in a small, two-room apartment. It becomes a question of picking and choosing, the most expensive of this, the least expensive of that, all according to what a man wants and can pay for.

There are only a few who can afford the best of *everything*. The amazing part of it is that there are so many people who have the purchasing power to buy the most expensive brand of *some* item or other. Almost everyone gets into the act at some time, thus justifying mass production of even the most luxurious goods.

What does this prove? It proves that our children will be able to afford even better things than we can at present. Will this lead to a Utopia? No, not yet. Utopia never comes to a society which is constantly enriching itself. Who can "plan" the unknown wonders that lie in wait on the other side of the hill?—H.B.



CHALLENGE NOTES

Sobering the economy; facts and figures; competing for business

SOME TIME AGO a noted physiologist startled the nation by contending that beer is not really intoxicating. This reminds us of recent protests by some businessmen and economists that government action to curb zooming bank and mortgage credit is unnecessary. Debt, they said in effect, stimulates but does not intoxicate the economy.

What the physiologist said may very well be true, but experience has taught us that it is best to know just how much beer we can take. The problem with debt is of the same order. An expanding economy must use debt to finance an important part of its growth. Obviously, if nobody bought automobiles, TV sets or houses on credit, there would be that many fewer autos, TV sets and houses produced—and that many fewer jobs to go around. As with beer, however, the question arises: How much debt can we "take"? Most economists would agree with the Federal Reserve that the time has come to "take it easy." Some people are going into debt on a very "empty stomach" indeed. And the consequences of an economic binge create more headaches (and heartaches) than an ordinary hangover.

Competing for Business

THE migration of industry southward and southwestward is gathering momentum. In the period 1947-1954, the New England and Middle Atlantic states lost 3 percent of their share of total factory jobs in the country; industrial construction and capital expenditures declined 5 percent. These losses have been the gain largely of the South and Southwest.

Community and labor leaders in the affected areas have complained that this migration has been prompted by "unfair competition" from industry-hungry states. Business, it is contended in these quarters, has been lured away by promises of lower tax rates and cheaper labor costs.

But is this really "unfair com-

petition"? It is, of course, true that wage rates in the Northeast are relatively high and state maintenance costs (and therefore tax rates) are often prohibitive. It is also true that such conditions often induce industry to move to areas where the costs of doing business are not as high.

In a free-enterprise economy such as ours, however, migration to low-cost areas is the surest way of adjusting such area differences. The present competitive advantage of the South and Southwest will, paradoxically, disappear as more and more businesses settle there. As population in the area rises, as labor becomes organized and as state expenditures increase to provide facilities for the new communities and industries, wages and tax rates in the South and Southwest will become comparable to those in the rest of the nation. Surely there is nothing "unfair" about a process whose net result will be the elimination of those very advantages the opponents of industrial migration complain about.

Facts and Figures

WE ARE always a little wary of people who pull out a long list of "facts and figures" to clinch an argument. For example: the number of engineers turned out by our colleges annually has declined from a high of 50,000 in 1950 to less than 21,000 in 1954—with no sign of a pickup in sight before 1959. Russia, on the other hand, turned out more than 54,000 engineers last year. There has been a lot of justified concern about this situation.

But what do the facts and figures prove? Not as much as is sometimes supposed. Unless we know (1) how a Russian engineering education compares with ours, and (2) how engineers are being used, we cannot be so sure that Russia is ahead of us. A recent study, for example, finds that technical training in Russia is overspecialized, with the result that engineers are very proficient in certain jobs, but not as flexible as American engineers. In a constantly changing field like modern engineering, such flexibility is a necessary condition for continued technological progress.

Even more significant is the way engineering graduates are being used in the Soviet Union. Studies indicate that a large percentage of Russian engineers are working at jobs which in the States a skilled workman can do. In a communist economy, moreover, an engineer—unless he wants to go to jail—cannot quit when he feels that he is misplaced.

Which all goes to prove that there are "facts behind the facts." ■

Human Experience and Opinion

by Haig Babian

—a continuation of "What Do Americans Think of Capitalism?"

THE August-September issue of CHALLENGE presented a discussion of the results of a public-opinion poll conducted by the Opinion Research Corporation of Princeton, New Jersey. There is a two-fold purpose in this extended presentation of what Americans think of capitalism, and why: (1) to demonstrate the meagerness of the public's information on and understanding of the American economic system; and (2) to examine the reasons for the ineffectiveness of business management's "educational programs" intended to win a measure of public confidence in business methods and objectives. It is entirely logical that both inadequacies should exist together. In fact, one aids and abets the other.

To the extent that our educational system and all other media of communication have been lax in the dissemination of economic information and development of economic concepts, the public's ignorance of the institutions and procedures of our economy is a failure of American society as a whole. To the extent that businessmen have not yet been able to demonstrate their identity of interest with the nonbusiness segments of society, this failure must be borne by the business community alone.

We have focused attention on the educational efforts of business because we feel the business community is best suited to tell its own story. In effectively telling this story, business and industry could provide an invaluable contribution to the process of developing a greater understanding among the public of how our economy works.

By all the standards of reason, the business community should be given credit for being among the first to recognize the need for more economic education at the

public level. Business groups *were* the first to put sizable chunks of money into programs designed to explain "the economy." But business has not received credit for its foresight. The tone of its programs has induced the suspicion that "business wants to save its own skin." Thus, the world's greatest masters of product advertising have not done too well at the crucial task of winning the loyalty of employees and the general public.

The malady of economic illiteracy (and mistaken notions about the business community) can be cured with a prescription compounded of information and comprehension. Many of those charged with the responsibility of conducting the public education programs of business have evidently not yet diagnosed the malady they are supposed to help cure. One cannot develop ideas and ideals the way copywriters drum up demand for a product. At stake is not a product, but a way of life. The techniques of the three-button flannel-suited advertising brigade will not affect much the composition of the moral fiber of a people.

Business education programs, so labeled, have turned out to be just that: excellent presentations of what business needs to thrive and to expand. The great failure has been that such efforts rarely convince the nonbusiness audience of one, simple, presumably apparent truth: namely, that what's good for business *is* good for everybody—and that that is the only way it should be and can be in our type of society. The last time a public spirited businessman suggested this, he was hooted down and subjected to heavy criticism for having stated something which, it was felt, he should have known would not sit well with the public. But would we be nearer the truth if we said that business and the public have an entirely *different* set of interests? When one thinks about this second proposition, the "objectionable" features about the first statement seem to fade away.

JOHNNY MERCER, who is better known as a song writer than as an economist, gave some good advice when he spoke about accentuating the positive and eliminating the negative. There is more *tacit* public acceptance of the business community than the business propogandists realize. What is required is more *positive* public acceptance. The public education programs of business and industry can develop that positive acceptance if the management "experts" will go about their task more like serious and detached teachers and less like quixotic defenders of a business community beset by mortal enemies.

When people are uninformed of the true role of business in the rise of American society, it seems to me that the approach of a pedagogue is more suitable for the occasion of imparting information than the air of the huckster who is determined to convince "in spite of what people think." Too much of the latter's protestations that "you have business all wrong" gives rise to the kind of suspicion aptly described in Shakespeare's *Hamlet*: "The lady doth protest too much, methinks."

THE business world is completely convinced that the proper techniques of communication between itself and the public are essential to the preservation of its, and the public's, interest. Every major business establishment today uses one or more media of communication to get information to employees and the people "outside." These include bulletin boards, pay envelope stuffers, house organs, discussion groups, slide films, motion pictures and information racks. The techniques of getting information back from employees have not been as extensively developed. Periodic employee-opinion surveys and suggestion boxes have been tried for this purpose. Frequently, too persistent an attempt to communicate with employees has resulted in unpleasant surprises and the coming home to roost of the awful truth.

The Industrial Relations Section of the California Institute of Technology has determined, through an extensive survey of employee opinion on the various media of communication, that house organs are still considered to be the *most informative* source of news about the company. Yet, the same survey reveals that employees think there is too much management censorship of house organs and too much stale news.

AN examination of the nation's 7,500-plus house organs reveals that they are, for the most part, disinclined to talk about labor and economic problems which affect the worker. From management's point of view, there may be "policy reasons" for such omissions. However, an employee opinion poll conducted by the National Industrial Conference Board reveals that the most desired information by employees includes such topics as how the American business economy operates, what is the profit picture of the company, and what is the salary of company officers. In short, the things which employees want most to know about are the very things which management is not eager to talk about.

Where does this leave us? The one segment of American society

which has the money and has taken it upon itself to spread the word, in a popular vein, about the American economic system has been unable to do the job without having its educational product labeled "special interest." Thus, as a pinpointer of a great deficiency of economic knowledge in our society, the business community has been a superb performer. As a leader in the process of alleviating this deficiency, business has been, unfortunately, not too effective. The question remains, what can be done about this exasperating failure?

WE HAVE spoken a great deal about the results of various public-opinion surveys seeking to establish what people think of this or that aspect of the business economy. Presumably, whatever is wrong with the public notions about our business economy has symptomatically displayed itself in various expressions of opinion —including those in the polls. The word "opinion," therefore, assumes considerable importance in this discussion.

If the business community is desirous of augmenting ideas built on knowledge and understanding of the American economic system, it must analyze those common experiences which have led people to adopt certain economic attitudes and opinions. The analysis will help in the formulation of a remedial prescription. It is evident that current attitudes and opinions have acted as a sort of mental block to many of the past remedies employed by the business community. To remove these blocks, it is necesssary to know what they are and to understand how they got there in the first place.

There seem to be four general areas of human experience which have contributed largely to the formation of certain attitudinal impediments to a fuller understanding of what makes the business economy tick as well it does. The first is to be found in the working world, which most people see as one divided between "us, the employed" and "them, the employer." Curiously enough, there isn't any suggestion of class consciousness in this attitude. It is merely an expression of fact which has significance only at the place of work. But it is an important fact, because every time management says something, those who work for a business organization, any organization, whether it be the one who is speaking or not, are inclined to look at management's statements with a jaundiced eye and to listen with the proverbial passageways between both ears wide open. How to bridge the gap between "us and them" is a problem of major significance

since it touches on the all-encompassing question of whether there can ever be any convincing communication from management to employees.

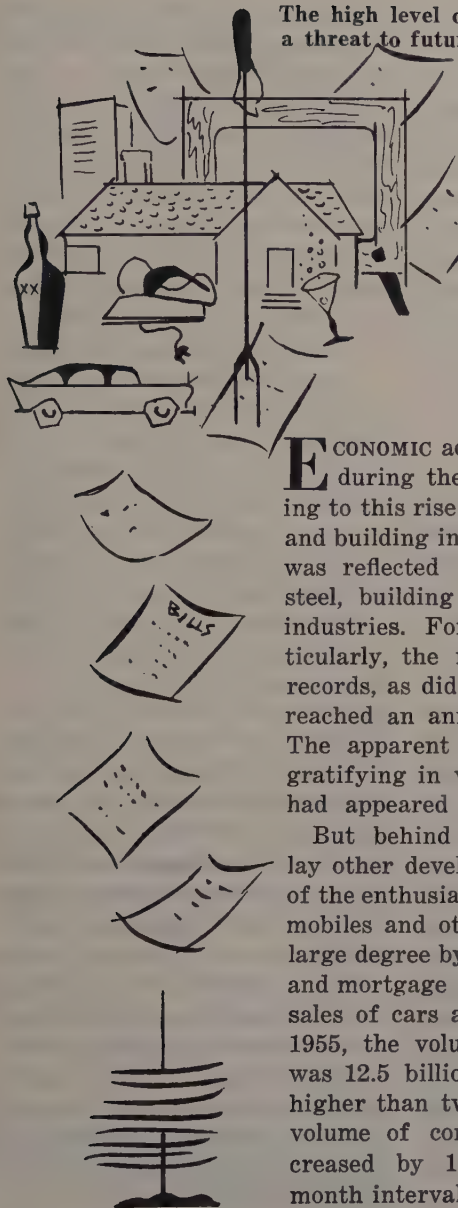
THE second area of human experience is delineated by the diverse ways different groups measure economic progress. The business institutions of the community look at progress with the eye of an historian. They evaluate progress in terms of an annual report, and they find comfort in the advance of this generation over the last. But the human being who goes to work every day to earn a living sees progress in terms of more immediate standards: how much money he has in his pocket and bank right now; how much money his paycheck will bring in day-after-tomorrow; how many bills he already has past due; and how many bills he will have to pay in the next couple of weeks. There is an intimate relationship between the long and the short of these two views of progress. The business community will have to spell out this relationship if its messages are to have any meaning to the public.

The third area of human experience develops out of the contrasts between the fantasies and realities of what government can do in the economic world. One of the most persistent lines adopted by the business community is that government should stay out of business. Yet various businesses, like individuals, have shown a propensity to rely on government for certain types of assistance. Should business practice what it preaches? Or are there really some exceptional circumstances? The atmosphere around this subject is charged with controversy. A persisting controversy never has contributed to the development of "faith in what we believe," because evidently we don't know *what* we believe in this regard.

FINALLY, there is a fourth area of human experience which has contributed to the formation of certain economic attitudes not always consistent with sound economic procedures. The times in which we live have given us considerable opportunity to contemplate the virtues of possessing economic security, and still more security. Very often when economic matters are discussed, truth can be made to seem like fiction, and fiction like truth, if the proper words are spoken in the name of economic security. How can management use this drive to achieve security to help it in its efforts to speak the *truth*?

A fuller discussion of these four areas of human economic experience will come next month. ■

The high level of personal debt poses a threat to future prosperity



Are We Too Deep in Debt?

by Jules Backman

ECONOMIC activity rose to new record levels during the first half of 1955. Contributing to this rise were the booming automobile and building industries, from which prosperity was reflected in almost all lines, especially steel, building materials, rubber and related industries. For both autos and housing particularly, the first half of 1955 set all-time records, as did Gross National Product, which reached an annual rate of 385 billion dollars. The apparent strength of the economy was gratifying in view of the "soft spots" which had appeared just twelve months earlier.

But behind these economic records there lay other developments which dampened some of the enthusiasm. The boom in housing, automobiles and other durables was financed to a large degree by personal debt. Consumer credit and mortgage debt kept pace with the rate of sales of cars and homes. By the end of June 1955, the volume of auto credit outstanding was 12.5 billion dollars, or about 23 percent higher than twelve months earlier. The total volume of consumer credit outstanding increased by 13 percent during the twelve-month interval. The June total of 32.5 billion

dollars compared with only 5.7 billion at the end of 1945. All along the line there was an easing of installment credit terms. The down payment requirement on new cars, for instance, was cut to 25 percent—and in some cases one could purchase a car for even less cash. The repayment period was extended to 36 months or longer. Other hard goods, like electrical appliances and furniture, experienced a similar relaxation of credit terms.

UNTIL the brakes were finally applied last August, there was a similar and even more dramatic development in housing. Under the Housing Act of 1954, the Federal Housing Administration (FHA) was permitted to insure mortgages to a maximum of 95 percent of appraised value up to $9,000, plus another 75 percent of value between that amount and $20,000. The maximum term of mortgage was extended to thirty years. Many of the smaller houses sold during the past year required no down payment. Under stimuli such as these, mortgage debt on one to four family houses climbed from 66.3 billion dollars at the end of 1953 to 75.2 billion dollars by the end of 1954. By June 1955, it had reached an estimated 82 billion dollars. In short, there was more than a fourfold rise in mortgage debt since 1945.

Such spectacular increases in outstanding debt have not gone unnoticed. The Federal Reserve Banks have moved twice within the last six months to raise the discount rate—that is, the rate at which member banks may borrow from the Feds for their own lending purposes. Any rise or increase in the discount rate has the effect of making it more costly for consumers and businesses to borrow. On the mortgage credit front, both the FHA and the Veterans Administration have raised the down payment requirement and have put an end to the no-down-payment practice. They have also reduced the maximum mortgage time from thirty years to twenty-five years, thus increasing the amount of monthly payments for the homeowner.

WHAT has prompted our fears about the overexpansion of credit? Are we heading for trouble as a result of the recent sharp increases in personal debt? Are there any critical levels beyond which debt expansion spells trouble?

These important questions have been asked and debated all year and will probably continue to be discussed in the months

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ahead, or as long as the current upswing in the economy is paralleled by an upswing in credit. There is wide disagreement on what constitutes the correct answers. In part, these differences arise from the fact that there are at least three different aspects to the debt problem, although the distinctions among them are often blurred. The first aspect deals with the impact of expanding debt on the future level of general business activity; the second with the ability of borrowers to carry the interest burden; and the third with the ability of borrowers to repay the principal.

In our discussion of the debt problem, we must attempt to distinguish which phase we are talking about. For example, even though consumers may be in a position to carry the debt and to repay it in full, there may still be adverse effects on the future level of business activity because of rapidly expanding debt. Therefore, to make reassuring statements about the ability of consumers to repay does not answer the question of possible ill effects on future business.

When consumers spend beyond their incomes, they obviously stimulate the economy to the extent of their borrowing. For example, a family earning one hundred dollars per week may spend a considerably larger sum as it refurnishes a home, buys a car, a television set or a refrigerator. At some future date, the family will have to spend less than its current income, if it is to repay the loan. During the period when the purchases are made, the economy is stimulated. When the repayments are made, this stimulus is lost. When large numbers of families are going into debt, the economy is stimulated, as it was in 1952 and 1953, when consumer debt rose by eight billion dollars. When repayments exceed new loans, as was true to a small extent early in 1954, then recessionary tendencies may develop in the economy.

It is a matter of common observation that periods of borrowing must be followed by periods of repayment. We cannot continue to spend more than we earn indefinitely. Thus, when personal debt is expanding rapidly, as at the present time, it follows that the stimulus to the economy will be removed when the volume of debt increases less rapidly, remains unchanged or is paid off.

It is interesting to note, in this connection, that consumer credit and mortgage debt were increasing at an annual rate of about twelve billion dollars more in the first quarter of 1955 than in the same quarter of 1954. At

the same time, Gross National Product was increased by an annual rate of fifteen billion dollars. Thus, about four-fifths of the rise in economic activity was reflected in the expansion of personal debt. Remove this stimulus and the most important single factor in the 1955 boom would be eliminated. It is for these reasons that the rate of increase in personal debt is so important in the economic outlook.

Does this mean that the total volume of personal debt is now too high? It is impossible to answer this question on any quantitative basis. It is true that personal debt has reached record levels; but so has the over-all level of economic activity and consumer income. In May 1955, total consumer credit outstanding was 11.9 percent of total personal income after taxes. In 1939 it was somewhat less—10.2 percent; but in 1929 the ratio was 7.7 percent. Thus, the current ratio is the highest ever recorded, or, to put it another way, the rate of increase in consumer credit has been greater than the rate of increase in consumer income. But this does not prove that debt is, or is not, too high. There is little evidence that consumers cannot pay off their loans. Repossessions are still reported to be low. Delinquencies are not a pressing problem, although they have been increasing in importance lately.

How much further can consumer credit increase before we get into trouble? Again, there is no micrometer which can provide an exact measurement of how far credit can safely go. Nevertheless, government agencies seem to have at least a conceptual if not a factual idea of what a too high level might be. There is a growing feeling that credit terms were eased so markedly that borrowing has been encouraged on too large a scale. In July, the Comptroller of the Currency announced that the bank examination reports would include a section on consumer credit. He stated that "recent surveys indicate that in some areas there is the tendency to loosen terms under which this type of credit is granted, particularly in the automobile financing field, by extending maturity and accepting down payments which, measured in terms of actual value, are lower than previously had been considered standard." Some families and businesses are bound to be hurt by these developments, since excesses arise very readily under these conditions.

MORTGAGE loans, which have also increased rapidly, create a similar problem. It is still too early to tell what the effects of the recent regulations increasing

down payment requirements and decreasing the period of mortgages will be on the housing picture. The loose lending practices of the past could be sowing the seeds for future trouble—although the prospects are certainly not all black. It is important to keep in mind that to a large extent mortgage payments are a substitute for payments of rent —although in most instances they are usually a heavier burden. There has been a rapid growth of home ownership, an admirable social accomplishment, at any rate. In 1940, 43.6 percent of families in the United States were homeowners, as against 55 percent in 1950. The current proportion is still higher. Moreover, the decline in interest rates from pre-World War II levels means that servicing costs have not risen as much as has total mortgage debt. But the over-long amortization time and small down payments will mean that the owner of a lower priced home will have little equity in it after several years of payments.

IN THE PAST, excessive expansion of credit has tended to characterize periods of boom and created problems which contributed to subsequent recessions and depressions. Consumer credit and mortgage debt have increased from about twenty-four billion dollars at the end of 1945 to about 110 billion dollars currently. During this same period, other types of private debt, including stock market credit, farm credit, business borrowing, and so forth, have increased from about 116 billion to 250 billion dollars. Total private debt has risen from 140 billion to 360 billion. These figures are enormous, even when allowance is made for the price inflation of the past decade and for the fact that there was little change in the years during World War II. There is no way to determine, in advance, how long this expansion can go along successfully or to what heights the total may reach. But the rapidity of the rise, the tendency to keep credit terms as favorable as possible and a too great reliance on the idea of borrowing and buying on time suggest that in the long run further increases in debt should not be viewed with equanimity. ■

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Growing Green Thumbs

MORE AND MORE Americans are going in for gardening—both flower and vegetable. Approximately $800,000,000 is being spent annually for flowers and seeds alone. Garden shops are raking in the green.

FOUNDATIONS:

how they operate as society's risk capital

by Arnold J. Zurcher

AMERICAN foundations have lately acquired a degree of prominence in the national spotlight that is quite unprecedented. Undoubtedly, one of the reasons is the fact that foundations have been the subject of two separate investigations in two successive years by special committees of the House of Representatives, one headed by the late Representative E. E. Cox (D.—Ga.) and the other by Representative Carroll B. Reece (R.-Tenn.).

While in the long run this expanded public interest in foundations may be beneficial, the immediate effect has not been altogether desirable. Apparently, some of the popular misconceptions about foundations have been aggravated. Of these misconceptions, probably the most striking, and the one which current discussions appear to have re-emphasized, concerns the number of foundations and the magnitude of their resources.

A list of all tax-exempt organizations may include as many as 10,000 or 12,000 "foundations." But many of these are mere family foundations set up for tax purposes or to handle family charitable enterprises. Others so listed are designed to carry out some special purpose. They are "operating" foundations, but they do not satisfy the principal criterion now associated with the name "foundation"—that is, a private organization, of substantial resources, which makes grants to *bona fide* educational, scientific and welfare research projects.

Actually, the number of sizable foundations is quite limited. According to a leading American authority, F. Emerson Andrews of the Russell Sage Foundation, in 1950 there were probably not more than fifty foundations with as-

sets of ten million dollars or more which did or could engage in large grant-making programs. In that year, a total of about one thousand foundations, including all the larger ones, commanded assets of approximately 2.6 billion dollars and made expenditures of about 133 million dollars per year.

Undoubtedly, foundation resources and expenditures have increased in the last five years, but their relative magnitude has not changed. Foundations, properly so called, still account for less than 5 percent of all monies spent for private philanthropy in America. Statistics such as these make it quite obvious that the apparently prevailing opinions about the wealth and economic power of foundations are distinctly exaggerated.

Another misapprehension about foundations, more or less closely tied to the one just discussed, has to do with the purposes for which foundations make grants. An appreciable percentage of applicants for grants regard foundations as a potential source of funds for virtually any traditional charitable purpose—that is, for relieving distress and overcoming social maladjustments. Others apparently think that foundations ought to be willing to help finance the operations of any existing school, college, hospital or approved welfare agency.

In part, such ideas about the use of foundation funds stem from the mistaken notion that foundations are enormously wealthy. In part, these generous notions for distributing foundation largess are inspired by the failure of the public to appreciate that most welfare and related activities are primarily the responsibility of the local community or of some specialized constituency, or of one of the various levels of government.

BUT THE CHIEF reason for the prevalent lack of understanding of the purposes for which foundations make grants resides in the public's failure to understand the role which foundations, especially the large and well-established ones, seek to play. Most foundations of importance regard the funds committed to their care as a form of social "risk capital." It is to be used to investigate or demonstrate new ideas and to support research projects in the true academic and scientific meaning of that term.

The primary purpose is to investigate in some area where the human mind has not gone before, or with which it is relatively unfamiliar. Hence, however well or-

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ganized the project, however reliable the sponsor and however able those who conduct the project, there is always the possibility that the research or demonstration will *fail* to prove what it had been hoped would be proved. From a popular standpoint, therefore, though not from a strictly scientific standpoint, the project might be a failure. This is the element of risk, the condition which governs all ventures into the unknown, which the foundation is willing to take.

It would be quite untrue to say that all foundation grants are of this nature, that they all seek to promote research or some pioneer demonstration in the arts and sciences. Nevertheless, foundations with the larger resources, which have a national as opposed to a purely local constituency, and which are best known to the public, do strive to apply their funds in the manner indicated and thus justify the assertion that such funds are society's risk capital dedicated to the advancement of knowledge and welfare in the broadest sense.

VARIOUS considerations have motivated the development of this policy. There is, first of all, the practical consideration that foundation resources are quite inadequate for the maintenance of traditional charitable enterprises in the community or nation at large. Hence, any attempt to use these resources for such a purpose would not remove from others the burden of supporting such enterprises. The pioneering activity of financing research and demonstration, on the other hand, has a price tag within the means of foundations.

Another consideration is the belief that foundations are probably better suited to provide the funds for demonstration, research and investigation than are industry, labor, government or any other constituency with "new" money. For one thing, foundations are essentially immune from quasi or direct political pressure. Moreover, unlike government or almost any other private constituency except the universities, foundations are not under the obligation to show some "practical" result for the work they support. They can indulge in supporting what the public is likely to label "academic knowledge" or "pure science" or "impractical ideas." Yet, it is often this same academic knowledge or pure science or impractical idea that sets the basis for practical advance in technology, the arts, administration and management.

The notion that foundation resources constitute society's risk capital harks back to the origins of foundations. Though individual programs may have varied greatly,

the preponderating tendency from the first has been to use foundation funds in such a way as to avoid purely palliative programs and to strive, instead, to increase and diffuse knowledge in all its branches.

DURING the last half century, America's foundations have unquestionably made an enormously valuable contribution to the advancement of knowledge and human welfare. All branches of science, and particularly some of the newer developments in physics, chemistry and the combinations of life and natural sciences, owe much of their development to foundation support. So do medical education and professional education generally, public health, international organization, the fight against degenerative disease, mental illness, and public libraries. These suggest but few of the many fields in which foundations have operated.

There still remain many avenues where foundations have been relatively inactive and where their funds might well go. Among these are the problem of the aged; the more efficient management of our hospitals; the sources of private support for private educational institutions; the more effective use of leisure; a better understanding of the role of government and the problems of politics and public administration; greater public understanding of economic phenomena; the development of terminal educational facilities other than collegiate or university; broader public appreciation of the social and other impacts of our recent scientific and technical progress; and a new approach to the problem of war.

The list, of course, is an unending one. But if the risk capital of foundations is to be applied to these and other problems in the future, it can be done effectively only with the assistance of men and women of training and vision who can apply these resources with a promise of the greatest return.

In any event, to discover such individuals, to encourage them to seek assistance and, finally, to assist them, is the real function of a foundation. If a foundation can discharge that responsibility effectively, progress will take care of itself. ■

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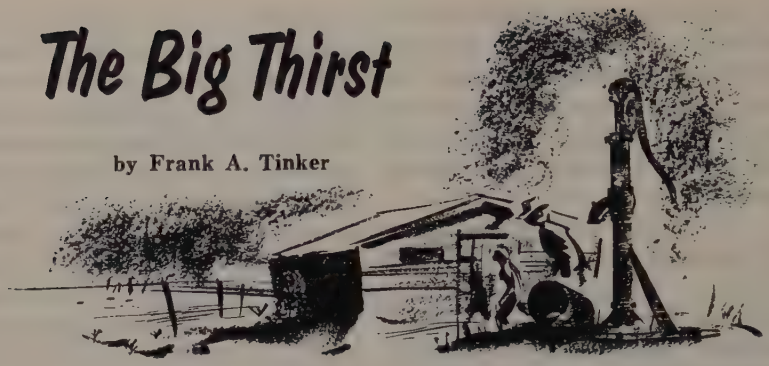
The Busy Sandman

A RUSH BY AMERICANS to buy bigger mattresses, says one manufacturer, means "prosperity is even putting us in an expansive mood as respects sleeping." Today, about 500 firms, as compared with only six as recently as a year ago, are in the business of making large-size mattresses.

The Big Thirst

by Frank A. Tinker



The growing Southwest faces a water shortage which, if untreated, threatens to turn the area into an irretrievable wasteland

OUR WESTERN STATES are presently fighting an unheralded battle against Nature and Time. Nature is becoming impatient, and Time is literally running out. While population figures mount, in keeping with the great trek to the Far West and Southwest, the land on which so much of this population still depends for support is in imminent danger of becoming a desert wasteland.

The dust is rising again from the misused soil whose protective cover has been scraped clean to make room for a speculative or price-supported crop. The water table has now sunk to a point where in many places it is far too expensive for a rancher, or anyone else, to drill his own well. Once flowing from sixty to 150 feet below the surface, this sustaining stream has been exhausted down to the 600-foot level, and some wells now must go down to 1,500 feet for adequate flow. In critical areas, such as southern Arizona, not more than a third of the groundwater remains—and this is being rapidly pumped away for reasons which can stand a sound, economic reevaluation.

With such a scarcity of water, it is reasonable to assume that what little is available should be put to the most advantageous use. Tragically, several factors, both natural and personal, militate against such a commonsense procedure.

The important role of agriculture in the economy of the area is one such factor. More than 60

percent of Arizona's income, for example, derives from agriculture, and it is understandable that most of the available water is used in this major endeavor. Unfortunately, irrigation operations are inherently wasteful of the limited and rapidly disappearing water reserves.

Whereas a city, even one with a fair amount of manufacturing, may actually return to surface or subterranean reservoirs 75 to 90 percent of the water drawn, an irrigation project loses more than 50 percent of the water by evaporation and transpiration alone! In desert soils, a considerably larger percentage must be considered "permanently" dissipated and certainly not returnable to the groundwater channels.

The comparative figures on water usage between the heavily populated, but industrial East and the agricultural West seem to substantiate these contentions. A 1953 survey showed that California led the nation with a consumption of 22 bgd (billion gallons per day). New York was the top Eastern user, but still well down the list with 9.6 bgd. While Arizona, a state with a total population only a fraction of that of Detroit, used more water than the entire state of Michigan, which has a large industrial output as well as rich farmland! Five Western states, California, Arizona, Texas, Louisiana and Arkansas, pumped more than 50 percent of the total groundwater used in the nation.

Of this total Western flow from the earth, 60 percent went into irrigation, with its high degree of unavoidable waste. In all, this amounted to 77 bgd, compared to an Eastern irrigation total of 3 bgd. Conversely, only 3 bgd went to Western manufacturers, whereas the East used 65 bgd in this manner. Again, industry's *consumption* of water is much less, since it replaces most of what it uses and, in fact, uses the same water two or three times in one cycle before returning it to natural waterways.

It should be understood that the groundwater in many Western states is in almost the same category as metallic ore. Once ore is mined, only a long period of natural geological action will replace it. A full one-fourth of the West's water is now coming from wells, much of it from areas in which it is, in effect, being "mined." The deficit thus created is overwhelming. In parts of Arizona, it equals thirty times the natural inflow.

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The consequent lowering of the water table is not harmful in itself, and in some areas where the supply is abundant it may actually stimulate the underground flow. But in these critical Western areas it is not a mere matter of lowering the table; it is the exhaustion or ruination of the entire underground flow. In California, the drastic removal of fresh water from coastal deposits has caused a seepage of ocean salt water into the subterranean channels. The increased salinity thus produced has rendered some of the water unfit even for irrigation. Although barriers of fresh water, pumped back into the ground between ocean and inland wells, are now being engineered, the areas already affected are believed to be largely lost.

Several decades ago, California had to consider declaring definite limits upon the population of its burgeoning cities until adequate water supplies could be developed. At the present rate of growth, the same prospect must be faced again in 1970 or thereabouts; and this time even surface sources (snowmelt and natural rivers) will have to be fully developed.

THE PROBLEM is aggravated by the fact that what little water is now available is not being used to best advantage. Arizona farmers, for example, have developed a new, long staple strain of cotton, Pima S-1, with which they hope to supplant the traditional Egyptian Karnak in U. S. markets. Longer and stronger of fiber than ordinary cotton, Pima S-1 thrives in the hot soils—and on the pure groundwater—of these desert areas. At the present time, figuring the cost of the water at zero except for pumping costs, Arizona growers can meet the Egyptian price of 67 cents a pound at the mills—and still retain their federal price support of 90 percent of parity. The 5,000 producers of the Southwest have asked, however, that this support be lowered from 90 to 75 percent, so that the price of Pima S-1 can fall to 55 cents, thus underselling the Egyptian cotton. The intention is, obviously, to increase the cotton acreage.

Needless to say, these growers have been influential in promoting federal irrigation and reclamation projects for the West, for which six billion dollars have already been approved.

Three years ago, in plugging for the Central Arizona Project, intended to bring Colorado River water to the thirsting desert valleys, a spokesman stated that the project would maintain what acreage was already under cultivation while reducing the drain on the groundwater supplies. Since that time, however, much

of the cotton expansion has occurred. What water could now be obtained through this project—even if undertaken—would probably scarcely meet irrigation needs, much less supply the other increasing demands of industry and population. Regardless of how much water is obtained from surface sources, the need for recharging the groundwater channels and rebuilding this vital supply will not be lessened.

At the same time that this groundwater is being pumped up and poured on the cotton, the state's leaders are bemoaning the water shortage, while householders question the need for ordinances which limit lawn watering and car washing. A moratorium has been declared on the drilling of new wells. As a result, industry has expressed a reluctance to enter such an area, and new settlers are taking a very temporary view of their stay.

DESPITE all the talk about the situation, relatively little has been done except to forbid the drilling of new wells in "critical areas," meaning the cotton valleys. No effective controls have been imposed on pumping, which is an expensive oversight since one large cotton enterprise can consume as much water daily as the city of Tucson! No answer has been given as to where the water is to come from eventually to support the planned—and unplanned—growth in population. Sometimes it almost seems as if an answer which includes conservation of the groundwater is not wanted. In Tucson, recently, the cotton growers ignored a proposal by the state land commissioner to organize a voluntary program whereby private users and state and federal agencies would cooperate in recharging the underground supply.

MEANWHILE, 1955 has seen the return of dust storms to the Colorado plateau. Lake Mead, a man-made reservoir, had a summer level which was the lowest since it was opened in 1938; Denver's reservoirs showed only half of 1954's level in the early season; and a rising public concern was the inevitable result.

Unless initiative and intelligence are applied to the water supply situation, particularly as it relates to groundwater, Westerners will have to bow to stringent controls or accept a hopeless, irretrievable wasteland. ■

APPROXIMATELY 83 percent of all *vacation trips* in the U. S. are made by automobile, with an average round-trip mileage of 978 miles.

For Asians—

Aid and Counter-aid

by Egon Kaskeline

Competitive U. S. and Russian foreign-aid programs seek to win the "uncommitted" millions in the East

RUSSIA'S "new look" policy of friendly coexistence has taken the form of a challenge to the American program of economic assistance to the peoples of free Asia. A new Soviet-style "Point Four" program has been suddenly presented to a surprised world. It is aimed at making friends among the non-Communist Asians by offering them major economic assistance in their efforts to develop industrially.

Today, Russian as well as American tractors are plowing the fertile plains of Hindustan. Russian engineers are busy building grain elevators and gasoline tanks in mountainous Afghanistan, while American irrigation experts are transforming the southern deserts of this country into a thriving agricultural community. Indonesia, another of the Asian "neutrals," is getting considerable economic and technical assistance from the United States, while receiving at the same time economic and technical advisory missions from two Soviet satellites, Poland and Czechoslovakia.

We are still far ahead in what has apparently become a race with Russia to provide economic assistance to underdeveloped Asia, not only because we are spending more money, but also because we are not newcomers to the area. Our experts have already been on the spot for many years and are well acquainted with local conditions.

American funds restored the economies of such allied countries as the Philippines, Korea, Viet Nam and Formosa. Of the more than half-billion dollars of foreign aid received by neutralist India since its creation, no less than three-fourths came from the pockets of American taxpayers. Burma, Pakistan, Iran and others in free Asia have also been beneficiaries of U. S. assistance.

Russia, on the other hand, does not have comparable experience in assisting nations which it does not politically control. But the Communists are masters of efficient political propaganda, and Russia's recent economic overtures are getting a favorable response, for various reasons, from the Asian neutrals.

Some of the statesmen of these nations are unfavorably impressed by the military aspects of the American aid program in Europe, which, they fear, might also evolve in Asia and interfere with their neutralist position. The Russians have repeatedly stressed that they will deliver badly needed capital goods "with no strings attached." Others believe that by accepting Russian aid, as well as American, they can continue sitting on the fence and bolster their position between the two blocs. Moreover, Russia is baiting her silver hook with the prospect of opening Iron Curtain markets to the rubber, jute, cotton and other raw materials which have been piling up in Southeast Asia.

Finally, there is the very practical consideration that America's well-developed economy uses tools often too far advanced for simpler economies. Thus, Russian machinery and tools are in many cases better adapted to conditions in poor and backward countries than are American industrial products.

SOVIET propaganda has told its listeners that at least 75 percent of America's so-called economic assistance goes directly and indirectly for military purposes. The American aid program, Soviet spokesmen say, is nothing but a smoke screen for a more extensive penetration of Asia by American monopolists. The West, they add, does not really want to develop the economy of Asia, but instead wants to keep it at a primitive level by preventing the establishment of new industries, especially of heavy industries.

These allegations are, of course, inspired by a prejudiced point of view, to say the least; but they do help to clarify the basic differences between the American and the Russian aid programs.

American economic aid to Asia emphasizes largely the development of already existing economic resources. It takes into account the need for wider markets for the raw materials of Asia. At the same time, it is trying to improve agricultural production. This country is spending millions of dollars to build large-scale irrigation systems, to develop rural electrification and to improve seed and livestock strains all over free

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Asia. American funds are helping to set up new educational institutions and to create local industries based on the use of newly acquired skills.

The American approach to the Asian economic problem is, basically, a pragmatic one. We know that before there can be extensive industrialization, there must first be a sound agricultural and commercial base which can support such a development. In contrast, the Russian economic proposals are aimed at revolutionizing the economic structure of the nations involved. The Soviets, it is true, are offering industrial credits which amount to only a fraction of the American grants; but their industrialization program appeals to the self-consciousness and national pride of the former colonial peoples. It seemingly offers the tools with which to build up basic industries, especially heavy industries, and holds out the promise of a decreasing dependence on industrial imports from the West.

If Moscow succeeds in carrying out its economic master plan for Asia, it is likely to achieve a double purpose: first, deprive the Western economies of their Eastern markets; and secondly, speed up the creation of an Asiatic industrial proletariat which may well become the hotbed of revolutionary agitation in Asia.

The latest Soviet moves in Asia are strategically planned. India, the major non-Communist country among the free nations, has been offered the most beautiful flowers of the Soviet bouquet. The Soviet Union and the Indian government, last February, signed a basic agreement providing for the delivery of eighty-eight-million-dollars worth of Soviet equipment for the construction of a one- million-tons-a-year steel plant. Particularly favorable conditions have been offered to the Indians. The big plant is to be finished within three to four years under the direction of Russian engineers and technicians. Russia also has proposed to India a very favorable trade agreement, including the delivery of Russian farm machinery, tractors and other agricultural tools.

Afghanistan, little mountain country on the path roads to India, is another late beneficiary of Russian economic aid. Slighted by Pakistan's refusal to relinquish border territories and by the West's lack of sympathy for her claims, Afghanistan is probably the one free nation of Asia most likely to come under Russian control. Under a recent economic and technical aid agreement, Russian technicians have not only built grain elevators and gasoline tanks in Kabul, but they are also constructing a pipeline which links

the Afghan capital to Russian petroleum installations in the north. The Russians have built the largest cotton-ginning factory in the country. Total Russian credits to Afghanistan are running up to nearly thirty million dollars, equalling the grants received from Washington in the past.

Russia is also negotiating with Ceylon for the construction of a new plant to produce tin plate for canning. She has offered Iran "a considerable contribution to its industrial development" and has promised that a Russian technical advisory mission will be available, if desired. More recently, Moscow invited Iran's young ruler, Shah Reza Pahlevi, to visit Moscow, accompanied by his chief advisors.

RUSSIA'S economic offensive in Asia has been well timed from the political point of view because it coincides with growing misgivings among Asian statesmen about the military aspects of the American aid plan. Yet, the total Soviet investment, covering a period of several years, is not likely to exceed two hundred million dollars. The U. S. will probably spend more than seven times as much during the current fiscal year alone to improve economic conditions in Asia.

The assistance program of Russia fails to take into account the increasingly precarious situation of her domestic economy. In recent months, the Russians have been increasingly slow in carrying out their trade agreements with the non-Communist world. They have stopped sending tractors and other agricultural implements to India because these deliveries apparently slighted Soviet farmers who need the equipment. They have also failed to deliver the electrical equipment to Malaya which they agreed to send in exchange for Malayan rubber. Thus, the promised stream of Russian industrial products to the Asian nations has recently been reduced to a trickle.

The Russians can certainly send some capital goods to Asia, if their leaders decide that this is necessary to counterbalance the American program of aid. But they cannot hope to race with the United States in supplying Asia with equipment and consumer goods. To paraphrase an old Russian saying, as much as the Soviet Union tries to stretch its economic blanket, it will always fall short of covering its ambitious goals. ■

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Honey-coated Hangover

HONEY HELPS to overcome hangovers, writes Dr. Martha Brunner-Orne in a recent issue of the Journal of the American Medical Women's Association. Fructose, a form of sugar contained in honey, speeds the burning up of alcohol in the body—putting the fire out faster.

The World of Adam Smith

Adam Smith's "The Wealth of Nations" remains a compelling landmark in the development of modern economic thought

IN THE YEAR 1776 the American Declaration of Independence pulled out a powerful prop from under the old colonial system on which much of mercantilist thought had been built. During the same year a Scottish philosopher named Adam Smith published *An Inquiry into the Nature and Causes of the Wealth of Nations.* This book has been regarded ever since as a landmark in the development of economic ideals for a free industrial society. In a sense, the political ideals expressed by the American Revolution had their counterpart in the economic shot heard 'round the world fired by Adam Smith.

Smith's great contribution was that he collected, refined and pieced together the best in the Physiocratic and liberal mercantilist doctrines. "Smith has been successful in borrowing from his predecessors all their more important ideas," wrote the well-known economic historian, Charles Rist. "He superseded them because he rendered their work useless. A true social and economic philosophy was substituted for their fragmentary studies, and an entirely new value was given to their contributions."

Adam Smith taught political economy as a branch of his moral philosophy course at the University in Glasgow. In time he became increasingly interested in commentating on the economic scene. He saw before him the illogic of an

English society still hampered by numerous mercantile restrictions at a time when the beginnings of the Industrial Revolution were suggesting vast possibilities for expansion. *The Wealth of Nations* was meant to be a massive attack on the last remnants of mercantilism.

SMITH is often referred to as the "spokesman for capitalism." By this it is not meant that he had any vested or personal interest in seeing mercantilism displaced. As the famous economist, Joseph Schumpeter, said of Smith, "He advocated the things that were in the offing, and he made his analysis serve them." Whereas the Physiocrats, most of them men with substantial landholdings, had, or appeared to have had an economic stake in their agriculture-oriented blueprint for society, Smith all his life remained a teacher and philosopher.

The Physiocrats bequeathed to Adam Smith a concept of natural order. It was Smith's belief in the natural balance of motives under a system of free competition which led him to make his celebrated statement that in pursuing his own advantage, each individual was "led by an invisible hand to promote an end which was no part of his intention. . . . I have never known much good done by those who affected to trade for the public good."

Smith assumed that the prime psychological drive in man as an economic being is self-interest. Every individual is anxious to obtain the greatest pleasure (i.e. profit) for himself. But as a member of the Commonwealth, he is dependent on others. Man "has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only . . . . It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest."

THUS, Smith's concept of the economic world revolves around this fundamental principle: that the spontaneous action of individuals under a system of unfettered competition leads to a beneficial and harmonious gain to the community as a whole. Although man's instincts are frankly self-centered, the natural order is such as to result in progress and harmony.

In domestic trade, in foreign commerce, in industry and agriculture, the principle held good that order would arise spontaneously. Conversely, government interference and mercantilistic restrictions would only result in a lessening of social benefit. Smith

This is the seventh article of a series in CHALLENGE dealing with the economic development of Man.

became an even more ardent champion of laissez faire than the Physiocrats, because he extended the principle to all forms of economic activity, not merely to agriculture.

On the other hand, Smith realized that perfection is impossible. He no doubt hoped, as his biographer Eli Ginzberg noted, "that a struggle for natural liberty would at least result in the death of unnatural restraint."

Smith recognized only three functions which the state should perform: the administration of justice, defense and the erection and maintenance of public works —which would never be in the interest of any individual to erect and maintain because the profits could never pay the expense.

GOVERNMENT should refuse to set up any special privileges and should take positive action to destroy any monopolistic position. Protectionism does not increase the quantity of capital; it "can only divert a part of it into a direction into which it might not otherwise have gone." The direction individuals *spontaneously* give to their capital is likely to prove the most favorable in the long run. "It is the maxim of every prudent master of a family never to make at home what it will cost him more to make than to buy . . . . What is prudent in the conduct of every private family can scarce be folly in that of a good kingdom."

One of Smith's most decisive arguments in favor of free exchange is based upon a consideration of the consumer's interests. He believed that the best check on fraud and negligence would be to offer the consumer an opportunity to choose among the products of competing producers.

THE HARMONY of interests could, however, be disturbed by the acquisition of privilege. Smith was under no illusion about the desire of individuals to create special positions for themselves. If he wrote of "an invisible hand" which made everyone contribute to the common good, he also spoke of those who "love to reap where they have not sown." But he believed that these privileged positions could only be maintained under a mercantilistic type of state support. The social evils he saw around him he ascribed to past mistaken notions of government.

Smith was not so preoccupied with his precepts that he forgot about the human stake in economic activity. A strain of sympathy for laborers, for farmers, for the low and oppressed everywhere runs through his writings. "Servants, labourers and workmen of different kinds make up by far the greater part of every great political society . . . . No society can

surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath [*sic*] and lodge the whole body of the people, should have a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged."

BUT AS logical as Smith is in his philosophical arguments on behalf of his system, there are glaring inconsistencies in some of his economic analyses. It is not easy to give a summary of his ambiguous and confused theories of value, for example, for economists have found three different strands of thought which Smith did not clearly separate.

First, he explains that labor "is the real measure of the exchangeable value of all commodities." A man is richer or poorer, he says, according to the amount of useful things which he can obtain. But with the growing division of labor in civilized societies, a man's own labor can no longer provide him with most of the commodities he needs, so that his wealth comes to depend on the amount of additional labor (other than his own) which he can enjoy.

Then there follows, immediately after, another account which evidently Smith intended to be a version of the first, but which is quite different. He goes on to measure the value of a commodity not by the amount of labor which it can *command in exchange* but by the amount of labor which its *production requires*. These two explanations run side by side, and the confusion between them is well illustrated by the statement that a man's "fortune is greater or less, precisely in proportion to . . . the quantity either of other men's labour, or, what is the same thing, the produce of other men's labour, which it enables him to purchase or command." In the first half of his statement, value is determined by the amount of labor embodied in a commodity; in the second half, value is determined by the amount of labor contained in the goods for which a commodity will exchange.

UNDERLYING both these versions is the belief that the amount of labor that goes into different products can be measured and compared, i.e. that by reducing commodities to a quantity of labor units one can compare, say, the amount of labor that goes into the production of a chair with the amount needed to make a dress.

Still, some pages later, Smith limits the validity of this two-edged labor theory of value to the confines of primitive societies only. In "that early and rude state of society which precedes both the

accumulation of stock and the appropriation of land," the whole produce of labor belongs to the laborer. Thus, the value of that which is exchanged and that which is produced is the same. However, in a more complex society the necessity of capital accumulation to create the means of production makes it difficult for Smith to maintain that labor was the sole source of cost and consequently of value. Under "capitalism" the value of a good must not only cover labor costs, but it must also bring in enough to replenish (and reward) the capital pool and pay rent to the landlord. The real value of all commodities can, therefore, says Smith, be divided into three component parts: labor costs, profit and rent. The labor theory of value becomes a kind of cost-of-production theory of value.

If socialists, most notably Karl Marx (via David Ricardo), have elaborated on Smith's labor-cost theory of value, the majority of other economists recognized the need to deal more fully with additional cost factors of production. As for Smith himself, he was unaware of the contradictions in his various theories of value, and it was left for later economists to attempt to unravel them.

There are other parts of Smith's work which, like the theory of value, have been found to contain a number of contradictions. But in spite of them, Smith's impetus to the development of economic thought is unmistakable, for he mapped out the field of economics in such a way that all thinkers were to follow his landmarks, if not always to like what they found. Production, value and distribution became the well-traveled paths of investigation.

Although Smith's over-all outlook emphasized the existence of harmonious interests throughout society, his economic analysis suggested certain areas where there might be cause for conflict. This dichotomy became formalized in two general post-Smithian schools of thought: one carried on the tradition of harmony; while the other belabored the pessimistic implications—thus enabling Marx to evolve a theory of exploitation of the masses which attacked the very same institutions Smith had upheld. ■

NEXT MONTH: Writers on the Continent used Adam Smith's harmonious outlook as a point of departure to refine, elaborate and improve his ideas.

Helping the handicapped to support themselves will pay off in the long run

The Right Support

by Enid Wolf

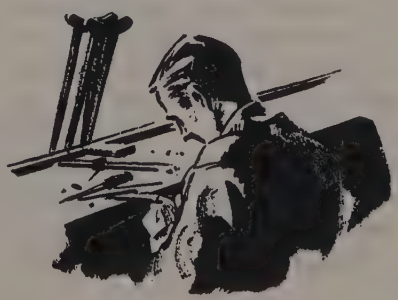
AMERICA has an estimated twenty-three million physically handicapped persons—men and women who, because of disabilities of various kinds, might be forced into a life of idleness.

In the past, such citizens were often put in a "human scrap heap." For many of them, their talents might just as well not have existed, for all the use that they would be allowed to make of them.

With advances in medical science during the last twenty years, this situation has begun to change. Today, experts agree that 2.5 million of the handicapped can be fully rehabilitated into paying jobs. This figure includes only those disabled men and women who are of working age (16-64) and who otherwise qualify for service in the nation's public program for vocational rehabilitation. It excludes all the others who, while they can be only partially rehabilitated, could gain much in dignity and happiness. (Their care is still in the hands of private and social agencies.)

Federal and state assistance for vocational rehabilitation, as distinguished from medical care, of the physically handicapped is a relatively recent phenomenon. It began ten years ago when the Baruch Committee on Physical Medicine established a plan, based upon experiences gained in two world wars, making it possible to restore to thousands of handicapped men and women the privilege of making a full contribution to American life.

From the taxpayer's point of view, the rehabilitation program is already "paying off." The cost of keeping one disabled adult in dependency is $600 to $1,200 annually, depending upon the care provided. The cost of rehabilitating him for a useful job is less than $700. For every federal dollar spent on rehabilitation, an estimated ten dollars is returned to the Federal Treasury in income taxes by those people who have



been restored into paying jobs.

But the economic and social benefits of vocational rehabilitation go much deeper. During its last session, Congress voted a four-year appropriation of $195,000,000 to maintain, improve and expand the existing State-Federal Vocational Rehabilitation Program. This will boost the number of persons rehabilitated into employment by 300 percent, or about 200,000 a year by 1959. Will the market be able to absorb them?

HOW ARE *today's* rehabilitated being received in the labor force? In Oregon, where the percentage of employable handicapped is in direct proportion to that of the nation as a whole, this writer interviewed federal and state agencies, union leaders, handicapped workers and employers. Here are the answers to some of the questions asked.

What kind of jobs can the disabled be trained for? That depends on his disability, his intelligence, his education and, most important, on his will to succeed. A breakdown of Oregon's Division of Vocational Rehabilitation placement statistics for the last four years shows the following employment opportunities: clerical and sales field, 25.5 percent; skilled occupations, 18.9 percent; semiskilled and unskilled labor, 18.3 percent; professional and managerial, 12.8 percent; services, 11.4 percent. Housewives and agricultural workers make up the balance.

Placement after training is a complex problem of finding the right job for the right handicapped worker. How long must he sit or stand? Does the job call for two hands or one? One leg or both? Must he move quickly from one place to another, etc.? There have been instances where training for the wrong job resulted in discouragement and failure for the client and dissatisfaction for the employer. The need for expert counseling cannot be overemphasized.

Are the unions welcoming them to membership? Neither the AFL nor CIO will refuse membership to a disabled worker if the employer wishes to hire him. But they are not going out of their way to recruit, an attitude that is intensified by Oregon's current labor surplus in the metropolitan areas.

Are the handicapped doing their share to make the program successful? The answer is "yes." Those employed have a record of higher production, less tardiness and absenteeism and more loyalty

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Enid Wolf, free-lance writer, has long been observing the workings of the Oregon Program of Vocational Rehabilitation.

to their employers than the unimpaired. A few who have not received adequate mental therapy believe that the world owes them a living. And there are always some who insist on employment beyond their capabilities. But these are the exceptions.

Are the employers hiring the handicapped? A true picture of employer reaction is hard to come by. Those who are unwilling to employ the handicapped are not standing up to be counted. Employers who *do* hire the handicapped, however, are well satisfied.

Industry employs the greatest number of disabled; it takes them as they come and asks only, "Can you do the job?" Employment in department stores, banks and other so-called "white collar" jobs lags far behind.

ALL persons this writer interviewed (except the non-cooperating employers) agreed that the higher insurance rate excuse is greatly overplayed. Oregon has one of the best insurance programs in its State Industrial Accident Commission of any in the country. No workman is allowed to sign a waiver of benefits with his employer. An employer, under the Workmen's Compensation Act, never pays more than his base rate, nor can he be charged more than $4,000 in case a personal injury suit is brought against him. In any case, both government and private insurance statistics show that the handicapped have a lower accident rate per million exposure hours than the unimpaired.

As Hal Wolfe, executive of Screw Machine Products, which has an entire assembly line operation in the hands of the handicapped, explained: "It's only lack of knowledge of their capabilities that keeps employers from hiring the handicapped."

And Oregon's story is typical of other states where vocational rehabilitation programs are well established. Where rising prosperity is rapidly depleting the labor pool, there is a challenging opportunity to deal constructively with the problems of the physically handicapped. It will pay off, not only in dollars and cents, but in countless thousands of self-reliant and useful citizens. ■

Productive Americans

DURING THE PAST CENTURY our rate of output has risen so fast that the average American worker today produces nearly six times as much in one hour of work as his great-grandfather did in 1850. If the present rate can be continued for another century, we shall be able to produce as much in one 7-hour day as we now produce in a 40-hour week.

Martha M. Eliot, M. D.

Chief of the Children's Bureau, Dept. of Health, Education and Welfare

The Problem of Juvenile Delinquency

QUIT CERTAINLY IS a great pleasure, Dr. Eliot, to have you as this month's interviewee in CHALLENGE magazine. Juvenile delinquency has become one of the most pressing problems in the United States of America today. As chief of the Children's Bureau since 1951—with almost continuous service in that Bureau for the past thirty-one years—as a former assistant director general of the World Health Organization and as a physician with world-wide experience in dealing with the special problems of children, you are undoubtedly in a position to give us some ideas on what we might do to alleviate the distressing tendency on the part of too many of our youngsters to rebel against the law. But before we get into the discussion, can you fill us in a little bit on the function of the Children's Bureau?

A The Children's Bureau rarely makes headlines, but it is probably one of the better known bureaus of the federal government. It was created in 1912 for the purpose of studying all matters relating to the welfare of children. It may interest you to know that while the initial directive creating the Bureau was very sweeping in its outline of duties, the first appropriation to finance the work of the Bureau amounted to only $25,000. The staff was comprised of exactly twelve people. For the fiscal year 1955-56, the Bureau has an appropriation of $1,640,000 and a staff of 210 people. So we have come quite a way since those early days.

Q Can the increase in the size of the Children's Bureau and in the scope of its activities be called another instance of the increase in federal power over state and local communities?

A I don't see how. The Children's Bureau collects data, does research and attempts to find answers in behalf of all the public and private agencies working for children. The facts which we collect and correlate are available to all local agencies which may be interested. But we possess no power to require anybody to do anything for children.

Dollars alone cannot measure the costs of juvenile delinquency

Q Does the Bureau make funds available to state and local agencies to help carry on their work?

A The Children's Bureau has a modest program of technical and financial aid to states to help them in developing maternal and child health services, medical care for crippled children and child welfare services.

Q Dr. Eliot, your Bureau recently created a Division of Juvenile Delinquency Service. Can you tell us why this was done?

A Between 1948 and 1954, juvenile court cases in this country increased by 58 percent. During this same period, our child population, of juvenile court age, increased by only 13 percent. In 1954, one child out of every thirteen in this age category got into trouble with the law. Over 1,300,000 youngsters were picked up by police in 1954. Of these, 475,000 appeared in court; 40,000 were committed to training schools for delinquents. Thirty percent of those who appeared in juvenile court had been in court at least once before. Juvenile delinquency, I regret to say, is on the rise, and we ourselves would be particularly delinquent in our duty if we did not make a special effort to help states and communities reduce it.

Q Is there any way of measuring the cost of juvenile delinquency?

A In dollars and cents, no. We don't have the data. The annual cost of *all* crime in the United States, according to the Federal Bureau of Investigation, comes to some twenty billion dollars. To the extent

that we can cut down on juvenile delinquency now, we ought to be able to look to a decrease in this staggering figure in the future. But how does one measure the cost of personal unhappiness, wasted and unproductive years, family distress and the many other evils and sorrows that result when a young person turns first to delinquency and later to crime?

It is difficult to determine the prime cause of delinquency

Q Dr. Eliot, what would you say are the most important factors responsible for juvenile delinquency?

A We do not yet know enough about causes. But we know enough to distinguish between different kinds of delinquent youngsters. Some are what we might call "accidental" delinquents, youngsters temporarily discontented or eager for adventure, who become involved in more or less serious misdeeds. Others, coming from homes that are wretchedly poor, follow the code of the street and get into trouble, maybe just because mischief-making is infectious. These two kinds of delinquents often can be helped to "go straight," sooner or later. They are the easy cases.

Q What about the hard cases?

A There are boys and girls whose social and personal problems are so serious that they are in chronic trouble with society. Some of these are children of minority groups who rebel against real or fancied discrimination. Others come from homes, some rich, some poor, where parent-child relations are strained. Still others have grown up without ever feeling wanted or loved. And then there are those who have never been able to identify themselves with an adult whom they could trust and admire.

Q I gather, then, that there are many different factors which contribute to juvenile delinquency and that any one or a combination of these factors may lead a youngster into delinquency?

A That is correct. But no one can say which of these factors is more, or less, important. There are two schools of sociological thought

on this subject. One holds that standards, ideals and goals differ from group to group; that children pattern themselves after adults of their own group and do not learn to value greatly the standards and ideals of other groups. Another sociological explanation holds that some of the trouble stems from our setting children apart—from not really incorporating them into family, school and community life, with clear rights and duties of their own. As a result, boys and girls look to their peers, rather than to the adults in their lives for their ideas about conduct and for their standards of what is right and wrong.

Q What does this do to the time-honored theory that character is essentially formed at home and that it derives in large part from parent-child relations?

A I don't think it destroys the theory at all. Parents *are* the most important influence on their children. On the other hand, this does not mean that parents are the only influence, or that they are to blame for everything that goes wrong. Every contact the child has with the people in his world plays a part in creating or blighting a healthy personality.

The family is still the most important influence on a child

Q What about delinquent parents, Dr. Eliot?

A There are undoubtedly delinquent parents, but not all of them are consciously neglecting or failing their children. Some parents are emotionally immature individuals—people who are unable to build healthy relationships with their children, or with each other for that matter. The youngster who is the neurotic product of an emotionally destructive home may lack the strength of character to find a socially approved way out of his unhappiness.

Q Is there such a thing as a delinquency-prone personality, one which an experienced physician or psychologist can detect in a child *before* delinquency occurs?

A Let me answer your question in this way. The process of encouraging a healthy personality in a child starts in earliest infancy.

When this process is not successful, a child may early show signs of emotional illness. He may show it in overt acts of aggression. Or, he may withdraw into himself. The experienced psychiatrist and psychologist can certainly detect these symptoms in very young children. But it is a very rash person who could characterize these signs of illness as indicative of a delinquency-prone personality. The effects of such disturbances may very well show up in ways other than delinquent behavior.

The problems of adolescence are especially trying on youngsters

Q I have often wondered whether the very problems that a youngster living through adolescence must face do not contribute to delinquency.

A Psychologists keep reminding us that adolescence is something of a shock to all developing personalities. This is a time when boys and girls, half child, half adult, are trying terribly hard to discover who they are, what they want to become. They are maturing sexually and physically at a very fast pace. The insecurity and inadequacy which comes with this makes some lash out aggressively. Others, less sure of themselves, may become too ready followers of their aggressively rebellious peers. Still others develop extremely ingrown personalities, the self-consuming ones who are as much an immediate danger to themselves as they may be later to society.

Q Why has juvenile delinquency become such a major social problem today, Dr. Eliot?

A I can theorize about the reasons. For one thing, many of the youngsters in trouble with the law today started their lives without the close companionship of fathers who were away at war or other military duty. For another thing, families nowadays are on the move, millions of them each year pulling up roots, moving to a new city and many never getting their roots planted again. Also, homes are becoming smaller as cities become more crowded. There aren't enough attics or back yards to play in. Aunts, uncles and grandparents have moved out into homes of their own. And then, for years there has

been a tension and strain in parents and children alike about what's ahead for each of them. Will it be war or peace? Will there be unemployment, or jobs for all, and what kind of jobs? We do not know how to measure the effect of any of these changes on the inner securities children have. But taken together, it is quite possible that the pace of these and other changes in our way of living and planning ahead may have much to do in increasing antisocial behavior among our boys and girls.

Q What can be done to combat this trend? How do we prevent delinquent behavior before it occurs?

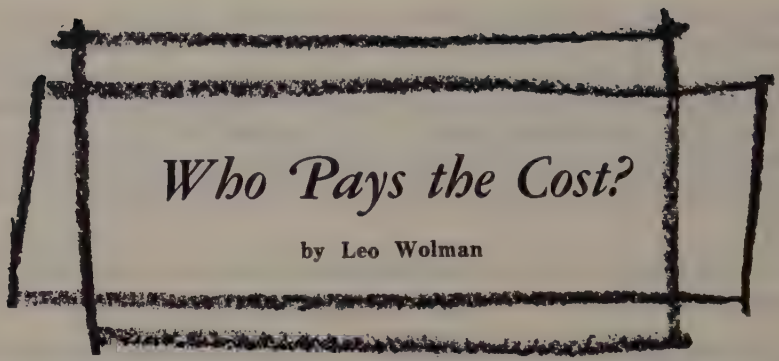
A If we knew what caused all kinds of delinquent behavior, we might know how to prevent it. But, as I have said, we are a long way from having either kind of wisdom. Certainly, we know that so complex a disturbance can neither be prevented nor cured by patent medicines. The best answer I can give you is this: everything that contributes to the social and emotional health of youngsters is a potential preventive of delinquent behavior. That involves almost every social institution we have: our schools, our churches, our health and welfare services, our newspapers, magazines, radio and TV. All kinds of community activities and services are involved.

The pattern of adult behavior exhibited before a child is crucial

Q What of the individual adult who may or may not be a parent? Is there a standard outlook that he might adopt, some rule of thumb he might follow, serving as a constant reminder of the do's and don'ts in this constant struggle against juvenile delinquency?

A I can answer that question by using the words of Dr. Brock Chisholm, the world-famous psychiatrist. He said: "There is only one way in which a child grows into a pattern, and that is by identifying himself with an older person, a person whom he admires and loves." In our personal contacts with every child of our acquaintance, it would be well if we kept in mind that the kind of adult pattern of behavior we hold up is sure to be seen by the ever-observant child.

Q Thank you, Dr. Eliot.



Who Pays the Cost?

by Leo Wolman

Someone has to pay when a company's labor costs rise, but who it will be depends on a variety of economic factors

TO WHAT EXTENT does an increase in labor costs influence a rise in the price of goods and services? This is a particularly relevant question if one wishes to analyze the price picture in a period of rapidly rising wages such as we have witnessed during the ten years since 1945.

From the time of the first big wage changes of 1945-46, which accompanied the transition from a war to a peace economy, different economic interests have debated the capacity of business to absorb an increase in labor costs. With varying degrees of emphasis, depending on prevailing economic and political conditions, organized labor and its political friends have argued that not more than a small proportion of an increase in the wage bill should be absorbed by a hike in prices.

This position was, and is, usually based on an oversimplified view of how much the wage bill contributes to the total cost of doing business. It is well known that the relationship between labor costs and the value of output varies widely from industry to industry, and even from business to business. Uninformed commentators will point to a particular industry, whose direct wage bill is one-fifth or one-sixth of the total value of output, and conclude that a 10 percent wage increase would amount to an increase of only 2 percent or less in labor cost. Therefore, at best only a 2 percent increase in prices is indicated.

Such calculations of a direct ratio may be valid in the case of a few isolated instances, but they are obviously not applicable when we are confronted with wage

adjustments that run through the *entire* economic system—such as we have witnessed in postwar America. When wage increases affect a very large proportion of the wage and salaried population of the country, it is clear that everybody's costs of doing business will rise, roughly in proportion to the advance in the total wage bill. A rise in the labor cost of one company or industry is promptly converted into a rise in the costs of materials and services of another company or industry. A general advance in wages, then, affects not the one-fifth or one-sixth of the cost of a particular business, but the wage and salary bill of all industry which is, by all odds, the largest single cost item.

There are, of course, factors which prevent prices from following wages blindly. Luckily for everyone concerned, private, competitive business has at its disposal numerous ways of saving money—or, as it is commonly put, of absorbing costs. It can install labor-saving devices, provide labor with better plant, tools and machinery, or somehow reduce its overhead. All of these methods have been used successfully during the postwar decade, as, indeed, they have been throughout our industrial history.

The effectiveness of absorbing increases in labor costs by these methods can, nevertheless, be exaggerated. There are initial expenses involved in the process which are much greater than is generally realized. Absorbing an increase in wages of as little as ten cents per hour is a formidable undertaking not likely to be successfully carried through without a plentiful supply of capital, a cooperative labor force and a fund of first-rate managerial skill and experience.

A LOOK at the record of the last sixteen years reveals that a substantial portion of the cost of wage increases was, in fact, absorbed by a combination of such efficiencies. Between September 1939 and June 1955, average hourly factory wages (straight-time) rose from an average of $.63 to $1.80—or by 187 percent. During this same period, the cost of living, a measure of basic retail price changes, advanced by only 90 percent. Consequently, real hourly wages, the purchasing power of an hour's wage, increased by 50 percent. Actually, the increase in real wages would be even higher if reliable estimates of the cost of fringe benefits were available.

It does not follow from this

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that *any* wage rise can be readily absorbed without commensurate advances in prices. Whether it can or not depends on many factors: the state of business, the margins of profit, the efficiency or productivity of industry and the frequency and extent of the wage increases. On two occasions since 1945—once in 1949 and again in 1954—there was a pause in the upward movement of wages due mainly to the fact that both industry and labor doubted the capacity or willingness of the market to absorb higher costs and higher prices. This was particularly true in depressed industries like textiles and coal, where unfavorable market conditions led to price cutting, accompanied or followed by a halt in wage increases, or even by wage reductions.

But we have a different situation in a year like 1955, when the volume of business activity appeared to assume boom proportions, and wage increases became larger. It is doubtful that such increases in wages can be absorbed by means other than higher prices. At least, that was the experience during another period of unusually large wage advances, from 1945 to 1947. In 1945-46 factory wages rose about nine cents an hour; the cost of living advanced 8 percent. In the following year, when factory wages increased about fifteen cents an hour, living costs rose about 15 percent. Thus, in 1955, as wage advances in the neighborhood of fifteen cents an hour become more common in the basic industries, price increases are becoming likewise more common. It is still too early to say what the total effect on prices will be if the present wage trend continues; but there is a good chance that the price advance will be substantial.

FROM this and similar evidence we can conclude that while it is possible to absorb slow and moderate wage advances without price increases, it is impossible to do this with rapid and large wage hikes. For one thing even under the most favorable circumstances, the application of capital to production and increases in productivity are a slow and uneven process. As a case in point, it would be well for us to take a cautious look at the much advertised 2½ percent average annual increase in U. S. productivity. This is not a figure that can be counted on under any and all circumstances. There are years in which the rate of productivity increase may exceed 2½ percent; but there will be years in which it may fall considerably short of that figure. Only one thing is certain: an annual increase in man-hour output of 5 to 10 percent—such as would be necessary

to absorb great increases in labor costs—is indeed a most unusual phenomenon.

Nor is it likely that substantial wage hikes can be paid for out of business profits for any length of time. The weight of evidence clearly shows that much of the investment capital required to keep companies and industries abreast of their competitors (thus enabling them to meet the wage demands of labor) can be got only out of the earnings of business. Even an industry as prosperous and technically advanced as automobile manufacturing has required vast capital expenditures, taken partly from borrowed money, but for the most part from earnings. Those who cannot count on adequate earnings will see their chances of survival progressively decline. This is true of all companies in most industries.

It sometimes happens that companies at one level of an industry will manage to hold the price line by passing on their increased labor costs to their suppliers, on the one hand, and to their retail outlets on the other. This is what is said to be happening in the automotive industry. Some work hitherto done by suppliers is being done in the shops of the manufacturers, while the wholesale prices of cars are maintained or raised at the expense of dealers' margins. Practices of this kind doubtless prevail (and not only in the automobile industry), although the over-all data needed to measure their effects are not available.

In the final analysis, however, such practices are temporary expedients—particularly in the case of dealers. No one concerned with the chain of events between manufacturer and consumer can for long persist in policies that may demoralize the system of distribution—no matter how effective such policies may be in the process of absorbing increased labor costs.

One thing seems clear from the wage and price history of this country since 1945: there are definite limits to the capacity of business to absorb wage increases. As long as such increases are slow and moderate, they may result in only minor advances in prices; and real wages may be expected to rise. But rapid and major wage increases inevitably lead to rising prices. This is what happened between 1945 and 1947, and it will probably happen again in 1955. Under these circumstances, rising wages must be paid for by the consumer, whether he be a union member or not. There is simply no one else to pay for them. ■

you may want to know...

WANT FREE magazine subscriptions, posters, pets, scholarships? A 118-page book, *1001 Valuable Things You Gan Get Free*, offers an amazing array of items available to anybody at no cost. The book is published by Bantam Books, New York. One thing, however. *It's not free.* Costs 25 cents.

Delayed Action

SOME liquids spilled on a rug often dry up and show no trace —at first. But most beverages contain a certain kind of colorless sugar which, after long periods of exposure to the air, undergoes a chemical change and causes a permanent discoloration. So, scrub all "spillage" at once.

Feeding Your Youngster

WHAT FOOD your child needs from infancy through adolescence is the subject of a new 35-page pamphlet prepared by the Children's Bureau of the Dept. of Health, Education and Welfare. The booklet has sample menus, suggestions for lunches brought from home and tips on feeding sick and overweight children. It is available from the Government Printing Office for 20 cents.

Keep It Short

THE Department of Agriculture says there is no advantage to the common practice of letting lawns grow long in the autumn. In fact, a heavy growth makes an ideal environment for pests. It's best to mow regularly as long as the grass grows.

Blinded by Color

YOUR ability to judge the distance of an approaching car is affected by the color of the automobile. A car which blends with its surroundings can seem six feet farther away than it really is, while a car which is much lighter or darker than its surroundings stands out in proper

perspective. Experts suggest a two-toned car: a dark color to contrast with daytime backgrounds and a light color to aid visibility at night. That's the advice of four University of California at Los Angeles traffic engineers.

Window Washing

WHEN cleaning windows, use up-and-down strokes on one side, and side-to-side strokes on the other. Then, if any streaks are left when you're finished, you will know which side needs a little more wiping.

Art for Rent

FOR a slight fee, an original Picasso can be yours—for two months. Local museums and galleries in eight major cities now rent original works of art for a two-month period at a price ranging from $6 to $70.

House For Sale

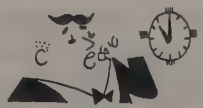
DON'T give one real-estate broker an exclusive on selling your house, for you may get hit for a commission and a half. He can list the house with other brokers, and if one of them sells it, you may have to pay the seller a full commission and the first broker half a commission.

Brighter Brass

TO GET at tarnish spots on brass, you will probably have to remove a coating of clear lacquer. A solution of caustic soda (½ pound to ½ gallon of cold water) and a little soap, applied with a cloth, will soften the lacquer so that it can be rubbed off. But wear rubber gloves.

Nuisance Mail

TO WHAT extent are you responsible for unordered merchandise you receive through the mail? Postal laws provide that the sender assumes all the risk. You can do anything you want with the merchandise, without sending any payment or notifying the sender.



Dieter's Delight

AN 18-calorie lump of sugar may help you to turn down a 400-calorie dessert—if you take the sugar an hour before dinner. This trick raises the proportion of sugar in your blood and temporarily placates your hunger. ■

Russia's Creeping Capitalism

by Paul Wohl

An increasingly elaborate system of official and unofficial free markets is sustaining the communist economy

IMAGINE what a task it is to determine the cost-price factors which enter into the operations of a single, good-sized business enterprise. Then try to extend this study to a similar investigation of the entire economy of the U. S.—including that of all levels of government as well as of our four million business firms and five million farms—all so neatly recorded in an immense mass of unwieldly statistics that we are reminded of the Prophet Isaiah's question: "Who has comprehended the dust of the earth in a measure and weighed the mountains and scales and the hills in a balance?"

This is exactly what the Soviet system of integral economic planning is trying to do. It has turned the Soviet Union into the land of paper pyramids, where as many people are employed checking on cost-price factors as in furnishing goods and services. Yet, after thirty-five years, the Soviet price system remains an arbitrary imposition on economic reality, entirely out of joint with the true costs involved.

Today's most popular small automobile in Russia, the Moskvich, can be bought for a sum equal to the price of only 220 pounds of butter. That may be the way the Russians like it, but it does not make much sense. In the first place, both butter and

automobiles are in short supply in Russia, so it isn't a question of too many autos and too little butter. Secondly, in the U. S., where butter and automobiles are produced more efficiently, more cheaply and far more plentifully, and even with the price of butter kept artificially high, it still would take 1,980 pounds of butter to buy one small car. In other words, the price of automobiles in Russia is a fictitious evaluation which looks good on paper but bears no real relationship to anything else happening in the economy.

The cost-price structure of the Soviet economy is dictated not by what is possible and probable, but by what the commissars think is necessary for the good of the state. However, since the people must still live within the realm of possible economics, they must engage in various practices of economic self-help.

This self-help takes the form of unrecorded private deals often conducted outside the orbit of official control. It is a bustling world of economic activity which the communist bureaucrats sometimes ignore, sometimes use and sometimes attempt to snuff out, depending on the economic and political conditions of the moment. An ubiquitous crypto-capitalism permeates the entire Soviet economy, all the way from the giant steel mill to the smallest household. Every Soviet citizen will make use of it one way or another whenever the official government machinery bogs down.

Perhaps half of such business deals occur inside the state machinery itself, among managers of Soviet enterprises and other government officials who find they must resort to economic self-help in order to achieve quotas stipulated by a planning bureau.

IT MAY happen that a certain factory urgently needs nails, tin plate or wire. The required materials cannot be obtained from the state allocation service. A shutdown of the factory, which will not be countenanced officially, is nevertheless in prospect. What else is there to do but to send out a "trouble shooter" who knows where to find the needed items? He either pays in cash, which has been amassed during the course of other such private deals and held in reserve for just such an emergency, or he offers to supply other materials or finished goods in exchange. This writer had an opportunity to study many such deals at first hand back in the days before World War II. Horsedrawn fiacres and trucks laden with the most incongruous cargoes were a frequent sight. Today, part of this traffic moves by air.

Paul Wohl is Soviet bloc analyst for the Christian Science Monitor.

Nobody knows the volume of such transactions, but it has been estimated that billions of rubles annually are involved. Legally these deals do not exist; but in fact everyone knows about them. Few cases come to court, and then only if one party tries to take too large a cut for himself, or, more likely, if things go so awry that the resulting inefficiency or scandal is too big to overlook.

The trouble shooters, who know all the shortcuts, are highly respected and frequently promoted. They usually end up holding executive positions in the bureaucracy, being considered well-trained, no doubt.

ANOTHER form of economic self-help is altogether legal. These are the millions of daily transactions in the so-called *kolkhoze* (collective farm) markets where the country's more than twenty million peasant families sell surpluses from their tiny one-acre homesteads directly to the city population. The collective farms themselves are also free to sell in these markets whatever remains of their produce after the lion's share has been delivered or "sold" to the state. In April 1954, Deputy Premier Anastas Mikoyan disclosed that such markets were attended every day by five hundred thousand peasants. Prices are determined freely by supply and demand and rise steeply when government and cooperative stores are short of food.

Kolkhoze market transactions are carefully watched by the government, which keeps an index of prices charged and paid. Through this market index, which is not published, the state planning machinery knows "what the traffic will bear"—in other words, what the true price structure is. In this sense, the free-market transactions provide the bureaucracy with a price indicator, something all the planning clerks, whether equipped with the abacus or with modern business machines, are unable to do.

Direct sales outside of the kolkhoze market are also legal, if made to state or municipal agencies. Such direct transactions have become an important feature in Soviet life. Many of the larger collective farms have resident commission agents in the cities to take care of their interests. In 1953 more than one hundred such agents were listed in Stalingrad alone. Shipments of merchandise covered by these direct deals may require strings of freight cars and extend over several thousand miles.

FORBIDDEN outright are black-market deals with private businessmen ("speculators"). These freebooter entrepreneurs of the

communist society buy up goods in state stores or obtain them against "good services" from government factories and warehouses, and sell them later at a substantial profit. Many speculators live high and handsome. On April 16 Pravda told about a ministerial official in the oii republic of Azerbaijan who was a speculator on the side. He had stored away a gold chain twelve yards long, more than three million rubles in bonds and several hundred thousand rubles in cash. (The average worker makes less than seven thousand rubles a year!) Another black market operator traded in livestock which he sold through middlemen at high prices. He too led a life of opulence, apparently side by side with honest-to-goodness government officials. When this man was investigated, the director of the central market shrugged his shoulders and said: "We know all the speculators by name. . . . At the meat stands many other sinister characters make fat profits, but nothing can be done against them."

A special category of black-market transactions is to be found in the under-the-counter sales by the employees of government stores. Recent reports gleaned from the provincial press show that after thirty-eight years of Communist rule, such practices are increasing. A typical example is cited in Zarya Vostoka, the principal Russian newspaper in the capital city of Stalin's home state. It reported on April 27 that in Tiflis proper the largest grocery and food stores were selling "goods under, and liquor over the counter. . . . The cashier adds 3 to 5 rubles to the price of each kilogram (2.2 lbs.) of sugar and meat that is handed out."

THERE have been many phases in the relationship between communism's comprehensive system of "calculated" official prices and the unofficial prices which come into play with economic self-help. On the eve of World War II, the central planning board had worked out a precarious price structure based partly upon complex cost computations and partly upon free-market prices for food products. When the war came, all prices were frozen. In reality, the price system split into two parts. For those commodities like weapons and capital goods, which the government turned out and took over, prices were nominal. Only quantities counted. But it was different for food and consumer goods. Not even the semblance of a relationship between prices for food and industrial goods was left.

In the fall of 1947, a currency reform was introduced, and the Kremlin began to follow a strictly deflationary policy. Food and con-

sumer prices were cut regularly in subsequent years so that for a time the difference between free-market and official store prices no longer was very great. But prices for capital goods continued to be manipulated arbitrarily. In 1949 the price of steel, for example, was *raised* threefold. In 1950 it was *cut* between 37 and 47 percent. The juggling with prices of producer goods knocked the bottom out of the industrial index.

By 1951 the situation had become so confused that for the first time the Finance Minister's budget report contained only fragmentary figures for actual revenues. In his last opus of October 1952, "Economic Problems of Socialism in the U.S.S.R.", Stalin warned that even under communism an objective law of value must continue to exist. If one assumes, he scorned, that the communist state can ride roughshod over the law of value, "our economists and planners might again propose that the price of one ton of grain be equal to that of one ton of cotton."

WHEN Stalin passed away from the Kremlin scene, the law of values had asserted itself to such a point that the state procurement and distribution system no longer could be controlled. In the last months of Stalin's rule, the press disclosed unbelievable causes of "commercialism and corruption." These were the months during which more than five hundred thousand cows were slaughtered or otherwise "taken off the books." Just as during the war when shortages became so great that people paid enormous prices for food and clothing, all sorts of goods once again were traded predominantly outside of the state distribution system. Yet, wrote Pravda in February 1953, Soviet economic executives "shrugged their shoulders and asked 'What can we do?'" A large part of the bureaucracy had been drawn directly or indirectly into the world of unscheduled, private transactions. Creeping capitalism was rampant.

Stalin's successors, at his bier, warned of "confusion and disarray" and suggested that the new government would brook no compromise with decadent capitalistic practices. But a more realistic line had to be adopted in the face of growing economic difficulties. Now, after two years of financial "liberalities," first under Malenkov and then under Bulganin & Co., government stores still do not have enough goods. New inflationary pressures have been created. In the meantime, the forces of economic self-help, still officially unrecognized, are trying to make the best of an "unplanned" time of troubles. ■

Clearing the Air

Unadulterated air is a costly commodity these days

AIR IS NOT free as it has often been proclaimed in poetry and song—not fresh air, anyway. Fifty large American cities are now spending a total of several million dollars annually—about 2.5 million dollars in 1952—while businesses and individuals spend many times that sum to keep the air free from dirt, gases and odors. The economics of "free" air involves a simple choice we must make: either we pay to keep the air clean, or we pay for the consequences of a polluted atmosphere.

Air pollution is not totally a new problem, but it is an increasingly aggravating one. Ever since man discovered the principle of combustion, he has had to think of ways to avoid contact with the waste given off by that combustion. As urbanization and industrialization have increased, the variety of fuels, methods and amounts of combustion have also increased. The waste products being sent up into the atmosphere amount to so much garbage. Unfortunately, we must live in this garbage-infested air.

There is a temptation to think that the additional cleaning bills, new housepainting jobs and building repairs will be cheaper than the installation of equipment to control the expulsion of dirt into the sky. In reality, the over-all savings to be reaped would far outweigh the costs of control. But there has also been a suggested tie-up between air pollution and respiratory diseases. Its lethal potential was well demonstrated twice in 1948: by the Donora, Pennsylvania smog disaster, and even more by the costly episode in London, England,

which took thousands of lives. In both places, a high concentration of noxious gases was held close to the ground level by a "lid" or layer of warm air which prevented circulation.

No city, large or small, is safe from the noxious effects of polluted air. Nearly 60 percent of the municipalities in New York State with populations of over five thousand persons have air pollution problems of one kind or another. In a small town, the source of pollution may be a single industrial plant. In a metropolis, there may be many possible offending sources, the bulk of them traceable to the simple fact that a large number of people are living together. Since it takes only a single source of pollution and a single complaint to make a problem, a program of control in a metropolis is a very complex matter.

The extent of the seriousness of a city's air pollution troubles, however, does not depend entirely upon how much actual combustion goes on in that city. If that were the case, cities like New York would probably be the most polluted cities in the world—which they are not. In New York, eighteen million tons of coal, 3.375 billion gallons of fuel and more than 400,000 tons of refuse are burned in a single year. Yet, of the five largest cities in the United States, New York is the second *cleanest*.

THE AIR pollution problems of some cities are aggravated by their geographic locations. Los Angeles, for example, is located in a basin, where atmospheric conditions encourage "lid" situations. Los Angeles is also plagued by a sort of "natural" air pollution problem which has defied efforts to control it. Some of the gases given off from the city, while in the air, form compounds which at high concentration could be lethal.

Prevention is the only sure cure, for once the pollutants get into the sky, no man-made device can dissipate them. But prevention is largely a matter of finding the cause or causes of a particular city's problems and learning how to control them.

In order to track down and solve such problems, most city governments now have set up air pollution control departments whose function is to detect and try to alleviate possible pollution sources. The most difficult problem, however, is to enlist public support for the local program. After all, the mechanisms of control are generally simple. All that

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CHALLENGE presents this article in the belief that increased public cooperation in air pollution control is of prime necessity if community programs are to pay off.

is needed is correction of faulty operation and maintenence of fuel-burning equipment, the burning of the proper grade fuels and the installation of control equipment on smokestacks. That is all there is to it—provided everyone concerned knows what to do and finds it expedient to do so.

In their efforts, air pollution agencies have been aided by private research organizations or by private grants of money to be used to study air pollution problems. In Louisville, Kentucky, for instance, the Battelle Memorial Institute was called in to help solve a dust problem, which was eventually traced to some of the city's synthetic rubber plants. Immediate steps toward control followed. Similarly, New York University's College of Engineering, with funds provided by the Consolidated Edison Company of New York, has built a low speed wind tunnel for the purpose of helping Con Ed channel the smoke from its stacks without dumping pollutants on city residents. Various trade associations and the Public Health Service are also helping to establish standards of clean air and methods of keeping it that way.

ALTHOUGH in some areas industrial plants are the chief cause of air pollution, it is precisely the industrial segment of our communities which has been the quickest to adopt control methods. Modern industrial organizations naturally do not wish to run the risk of bad public relations emanating from pollution problems. But it also happens sometimes that industrial firms have been forced to go overboard in their efforts to install control equipment because residents of the surrounding areas have made unreasonable demands.

Of course, all companies do not have equally "clean" records. Some have felt that the cost of installing control machinery is too excessive and have had a tendency to lag behind in their smoke control programs. A precipitator for an open hearth steel furnace, for example, costs from $600,000 to $1,000,000. When figures like that are brought to light, it becomes apparent that there is more involved than merely the "desire" to clean up.

It may come as a surprise to most people to learn that the greatest resistance to control often comes from individuals. It is a human failing that while the individual is very much concerned about his own protection, protecting the community as a whole becomes another matter when the cost involved seems to represent too high a bill for any individual to pay. The shift from burning one fuel to another, which is sometimes necessary to control soot,

is often expensive. Similarly, the cost of installing control equipment on heaters and incinerators frequently seems exhorbitant to homeowners. The purchase price of control equipment on existing devices may, indeed, be rather high. Besides, control works best and is most economical when it is built into the original equipment. Under such circumstances, it is too much to expect that everyone will be in a great rush to get behind the drive to control a city's air pollution problems.

In the recent cleanup fight in Pittsburgh, a significant improvement in the atmosphere was brought about by changing the grade of fuel used in home services. In Los Angeles, where citizens' groups have been vehement in their attacks on oil refining plants as a major contributor to pollution, obsolete, privately owned backyard incinerators and automobile exhausts are just as much of a problem. Yet, all along the line, the elimination of these incinerators and controls for auto exhausts have been bitterly fought by the citizenry of Los Angeles.

Without a proper understanding of the problem, people are slow to support the air pollution efforts of their community agencies. Air pollution control, whether public or private, means money out of the pockets of individuals. Therefore, the cost of clean air is still a matter of controversy which only time and greater information can resolve.

Our growing knowledge of air pollution can help us to keep our cities clean and to plan future cities in such a way that pollution can be kept to a minimum. Such knowledge often helps us to build our homes and offices with the kind of equipment that will eliminate possible pollution sources. There is no doubt that scientific research can tell us how to elminiate pollution and that industry eventually can produce the equipment for control at ever lower prices. But first and foremost, our citizenry will have to get over its complacency and realize that it has a role to play in controlling the problem it is helping to create. ■

Answers to True-False Quiz

(1) false (*see page 42*)
(2) false (*page 24*)
(3) false (*page 11*)
(4) false (*page 20*)
(5) true (*page 28*)
(6) true (*page 53*)
(7) false (*page 58*)
(8) false (*page 33*)
(9) true (*page 36*)
(10) false (*page 16*)

current trends and outlook

Economics in Action

the growth year; a renewed drive in cars; buying our way to records; taking the credit; our building future; new sights on the price front

THE FURTHER business expansion which is expected to occur in early fall will bring the economy beyond the record levels already set this year. We have chalked up a peak attainment in **production, retail sales, personal income, etc.** **Gross National Product** in the second quarter of the year was at an annual rate of $385 billion, constituting an annual increase in growth beyond what might be considered "normal." The expansive pace has been so rapid that afterthoughts have inevitably arisen about our growth potential.

The fall will be marked by the usual seasonal pickups in **hard goods** and **apparel.** **Auto buying** should be a key test for the economy, although the upsurge is now so widespread that no one industry could contribute wholly to a rise or fall. With car manufacturers preparing to get new models on the roads earlier than ever, dealers are frantically hoping to sell off current high stocks of '55 models.

What will suit the taste of consumers in the way of goods would be a risky forecast, but indications are that people will continue to buy. Although **retail sales** were somewhat slowed by summer heat, they were well ahead of last year's. With the first cool spell, sales were brisk. Except for **autos,** the ratio of **inventories** to sales is comfortably low. Thus building for inventory can be expected to continue bolstering the upward trend.

Credit is tightening, while the demand for credit continues unabated. Lending banks are paying higher **interest rates** to get funds; borrowers in turn are paying more to get **loans.** But both business and consumers seem willing to pay the higher costs and to go on expanding and buying. In the **mortgage credit** field, the recent federal restraints may have some effect on the pace of future **home building.** July **housing starts** showed signs of a slight let-up, in any case. Most experts seem to feel that housing starts will not maintain the pace of the last twelve months—although nonresidential building activity is headed upward.

A price breakthrough appears likely now, but **consumer prices** are expected to rise only slightly. The **Consumer Price Index** moved up a little in July as costs for **food** and **services** edged ahead. In the **wholesale market,** materials continued to rise, with **copper, zinc, scrap** and **wallboard,** which are in short supply, being the latest group to cost more money. **Price inflation,** however, does not seem to be one of the more vital influences which can detract from growth—although it will bear watching.

The **future** appears to be bright, with prospects pointing toward a "normal" growth—one which, it is hoped, will de-emphasize excesses that could damage the structure of a long-term advance. ■

The Fair Trade Dilemma

by Herbert Koschetz

Should the traditional role of retail businesses be sacrificed for the sake of providing cut-rate prices to the consumer?

THE IDEA of fair-trade protection of branded articles is the child of depression. Born and nurtured in time of despair, business now finds it difficult to cast fair trade out of its house—feeling, no doubt, that the thing which some have termed an anachronism may again be needed.

Getting together to fix prices is anathema to most American businessmen, not only because there are legal barriers, but also because it is recognized that competition is a vitalizing factor in American business and industry.

Yet, there is a strong argument for setting a minimum price on certain categories of goods when one considers that merchandising individualism *could* destroy the small retailer in times of stress. Those who were aware of the need to offer some protection against indiscriminate price cutting to the many hundreds and thousands of small distributors found partners in the producers of trade-marked and branded merchandise. The latter, well versed in the art of advertising and semantics, came up with a way to make the idea of a limited type of price fixing palatable to legislators and to the public.

The master stroke was to tag on the words "fair trade" to the idea. Who would dare to object? It wasn't too difficult to build up a good case for the maintenance of minimum prices as a fair procedure for all concerned.

The minimum price adherents had to overcome obstacles in the antitrust laws. The Sherman Act, the first of these laws, was enacted sixty-five years ago. It provided that every "contract, combination in the form of trust

or otherwise, or conspiracy in restraint of trade or commerce among the several States or with foreign nations is hereby declared to be illegal." In 1914, the "defects" in the Sherman Act were corrected with the enactment of the Clayton Act.

Up to the time of the great depression in the early 1930s, these basic antitrust laws had kept down the more flagrant types of cartels that might have arisen with the growth of industry. Depressions, however, accentuate the worst in competitive business; the fight for survival becomes brutal, and price cutting beyond all economic reality drives many businesses to the wall.

THE New Deal Administration thought there was a need for industry-wide agreements to fix not only minimum wages but "fair standards" of business practices. In effect, the National Recovery Act (NRA) temporarily breached the solid front of legal barriers to agreements among sellers.

Even before the NRA, however, sellers who wanted to maintain minimum prices for their products were able, in certain states, to get laws passed which protected trade-mark owners and distributors against "injurious and unequal practices in distribution of articles of standard quality under a distinguishing trade-mark, brand, or name."

By 1937, many states had passed such fair-trade laws, which, among other things, prohibited the resale of commodities at prices below those stipulated by the manufacturer. In that year, the Miller-Tydings amendment to the Sherman Act imparted federal authority to the state fair-trade laws.

Miller-Tydings, however, did not stand up in important court tests. In the Schwegmann Brothers v. Calvert Distillers Corporation case, the Supreme Court in 1952 ruled that Miller-Tydings was limited to *voluntary* fair-trade practices permitted by state law, and those who had not signed agreements with a seller where interstate commerce was involved, in effect, were exempt.

Opponents of fair trade, whose ranks had been swelled by the growth of so-called discount houses, lost no time in taking advantage of this Supreme Court decision. Price wars broke out on fair-trade items in New York and other cities. Merchants used the device of pushing loss leaders to increase store traffic; a hue and cry went up for remedial legislation. Accordingly, on July 14, 1952, the McGuire Act was passed to correct the defects of Miller-

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Herbert Koschetz's column, dealing with retailing and merchandising problems, appears in the Sunday edition of The New York Times.

Tydings. It stipulated that nothing contained in the Federal Trade Commission Act or in any of the antitrust acts could render unlawful agreements prescribing a minimum or stipulated price. Moreover, it specified that nonsigners were also subject to price agreements. Despite this swing of the pendulum, the fair traders still could not crow over their victory. The opposition was strong, and while not organized into bodies like the American Fair Trade Council, it had a sympathetic ear in Washington.

During the Truman Administration, the government was split on the issue of fair trade. In signing the McGuire Bill, President Truman held that a need existed for legislation that would protect merchants from indiscriminate price cutting. But, he also intimated that the situation was not quite as dire as that painted by fair-trade proponents.

With the change in administration, the climate for fair trade became a little cooler. This was not due primarily to opposition to fair trade *per se*, but to the fact that the Department of Justice was determined to review all legislation in relation to the antitrust laws. The new chairman of the Federal Trade Commission, Edward F. Howrey, often expressed the opinion that fair-trade contracts were difficult to enforce.

In February of this year, the Commission rejected a request of a jewelers' trade group to enforce fair trade. In March, the Attorney General's Committee to Study the Antitrust Laws urged repeal of the fair-trade laws. They were termed unenforceable.

In May, Stanley N. Barnes, Assistant Attorney General in charge of the antitrust division, called attention to a study on fair trade which indicated, he said, that consumers were being unduly penalized. The aggregate price on a group of 736 items sold in drug stores in fair-trade areas was compared against the price of these same articles in the District of Columbia, where there are no fair-trade laws. The total price of the items in fair-trade areas was $2,261.10, while the price in Washington was $1,602.44.

BASICALLY, the issue of fair trade is one between the large seller and the small seller. The giant retailer, whether he uses the medium of mammoth-sized department stores and branches, supermarkets or widespread chains of smaller stores which are supplied by a central buying operation, has sheer volume of sales to keep him in the black, even if his average markup is lower. It is understandable that he does not want to be hampered by fair-trade restrictions since he is engaged in a per-

petual effort to pull customers into his establishment. After all, cutting prices is a legitimate device for doing just that. His success is not determined by how large a markup but by how large an *average* markup he can maintain.

If large sellers had no other competition but that of other large sellers, the only thing justifying the minimum price laws would be to protect the manufacturer and wholesaler against pressure from their giant buyers. Here again it can be assumed that the large producer would be able to resist such pressures, while the smaller one would succumb to them.

But large sellers are also in competition with small sellers, and the small man does not have the large dollar volume that will carry him through to a profit at low markups.

There is one school of thought which says that retail distribution *only through large outlets* is the most economical kind and the one best for the consumer in the long run. The fact remains, however, that the nation's industry, with its tremendous producing power, would find itself capable of moving only a fraction of its output if the small, independent outlets were indiscriminately destroyed. Despite the tremendous growth of supermarkets, the independent grocer still accounts for half of the food sales in the nation. In other areas of retailing, the independent stores account for from 60 to 90 percent of the total volume of sales.

THERE is also an ideological issue at stake which probably has not entered too much into the pro and con forces of fair trade, but which nevertheless deserves mention, at least in passing. Totalitarianism can spread its tentacles more easily in economies made up of large producing and selling units than it can where medium and small operators in great numbers are still extant.

In the ensuing conflict of interests, fair trade has made strange bedfellows. On the one hand, there is the small merchant distributor who is vitally interested in its continuation. At the same time the small man finds support not only from small manufacturers making branded products but from the largest ones also, like General Electric Company and Eastman Kodak, who have tremendous investments in nationally advertised trade-marks.

Large manufacturers, who might expect support from Republican party policy on other matters, find that the Democrats are more active in fighting for measures that will insure protection for the small operator—thus giving active support to branded merchandise. The champions of fair

trade include Wright Patman, Democratic Congressman from Texas, and Homer Capehart, Republican Senator from Indiana, sponsor of a recent effort to strengthen fair-trade laws.

The chances for repeal of fair-trade legislation are remote in view of the present structure of Congress and the strong influence of small- and medium-sized merchants exercised in state politics. But as the Bureau of Education for Fair Trade pointed out recently, the Department of Justice and the Federal Trade Commission might well repeal the McGuire Act by indirection.

If fair-trade laws are not enforced, or if they are repealed, it can be expected that with the first decline in over-all sales, price cutting of branded and trade-marked merchandise will become rampant anyway. Already a substantial portion of manufactured goods is sold at discount. A recent study revealed that 18 percent of retail and wholesale sales are made at prices below list and that figure might well be larger if it is taken into consideration that many sellers have been compelled to meet discount house competition quietly, without publicizing the fact.

Consumers, of course, will derive immediate benefits from the price cuts. To the extent that such cuts increase over-all sales and result in greater movements of goods, price reductions may be all for the good. But if they have the effect of destroying small merchants and throwing out of employment thousands of workers engaged in distribution, indiscriminate price cuts can prove extremely harmful.

And so the issue stands seesawing back and forth, pro and con. In the end, it will not be settled by argumentation, but by the direction in which the economy moves. ■

The Supermarket Era

A HOUSEWIFE often spends as much time standing in a supermarket check-out line as she does selecting her food items, according to a recent study. The rural and suburban homemaker spends, on the average, 22 minutes standing in line if she shops from 4:00 p.m. Thursday to 9:00 p.m. Saturday. She spends 27 minutes in actual shopping, buys $19 worth of groceries and makes one trip to the market weekly. The city homemaker spends half as much time and money on her market trips, but she makes two trips a week.

Clerks who were surveyed maintained that much of the check-out bottleneck could be eliminated if the shopper had her money ready and if she placed groceries, priced-side up, on the counter in the order in which they are packed—canned goods, bulky items and perishables. All three-for-a-price type should be grouped together.

Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9 out of 10, Good; 8 out of 10, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Correct answers on page 56.

(1) Plant, equipment and overhead expenses contribute more to production costs than labor.

True ☐ **False** ☐

(2) The American economic aid program in Asia is aimed at the development of heavy industries.

True ☐ **False** ☐

(3) The economy can stand any amount of personal debt as long as people are able to repay it.

True ☐ **False** ☐

(4) New York State consumes three times as much water daily as Arizona.

True ☐ **False** ☐

(5) Adam Smith's belief in social harmony assumed that man's major drive was self-interest.

True ☐ **False** ☐

(6) Of the five largest cities in the U.S., New York has the second cleanest air.

True ☐ **False** ☐

(7) Major opposition to the small retailer's position in the fair-trade issue has come from large manufacturers.

True ☐ **False** ☐

(8) It costs less to support a handicapped person for one year than it does to rehabilitate him.

True ☐ **False** ☐

(9) In 1954, 30 percent of those who appeared in juvenile court had been in court before.

True ☐ **False** ☐

(10) Last year, foundation grants accounted for 32 percent of funds spent for private philanthropy.

True ☐ **False** ☐

Dept. of Better Mousetraps

From the World of Industry: an electric hand-warmer for toll takers to prevent frozen fingertips in winter . . . a recording device for hospital use which reads your blood pressure periodically and rings a bell when it falls below a preset level . . . a moving sidewalk than can go around corners and carry passengers in two directions . . . an electronic signaling system for telephone dialing that promises split-second phone calls . . . a loudspeaker with a four-mile range . . . an electronic skin thermometer that instantaneously measures temperature . . . a wax-filled soft plastic earplug that conforms to the ear shape . . . and an "Industrial Work-Day" calculator which can be used by companies which want to know how many work days are left before a big order is due.

* * *

Around the House: *a screwdriver that drives screws around corners . . . a paint-it-yourself mural . . . an alarm clock which is shut off by a touch on any part of the surface . . . and a Johnny Rack which holds a roll of toilet tissue, large magazines and pocket size books.*

Junior Department: a pink or blue ceramic milk mug with a gay whistle shaped like a bird for junior to toot for a refill . . . to carry the baby and yet have your hands free, a sling made of broad, adjustable straps that slip over one shoulder . . . de-germed plush-covered toys . . . and an attachment for your radio that allows you to tune in nursery noises. It's a low-power radio transmitter that can be plugged into an electric outlet in the nursery and broadcasts on a frequency that won't interfere with normal radio operation.

* * *

The Animal World: *a flea-repellent and dog-deodorizer pillow . . . and a harmless spray for shrubs, tree trunks, trash cans and other "problem spots" which repels animals for weeks.*

* * *

Kitchen Kuties: magnetic pot holders that cling to the sink . . . a stainless steel tea bag squeezer . . . canned chocolate milk . . . plastic tumblers claimed to keep drinks at constant temperature for hours . . . and, for the next bridge club meeting, an ice tray that freezes in heart, diamond, club or spade shapes. ■